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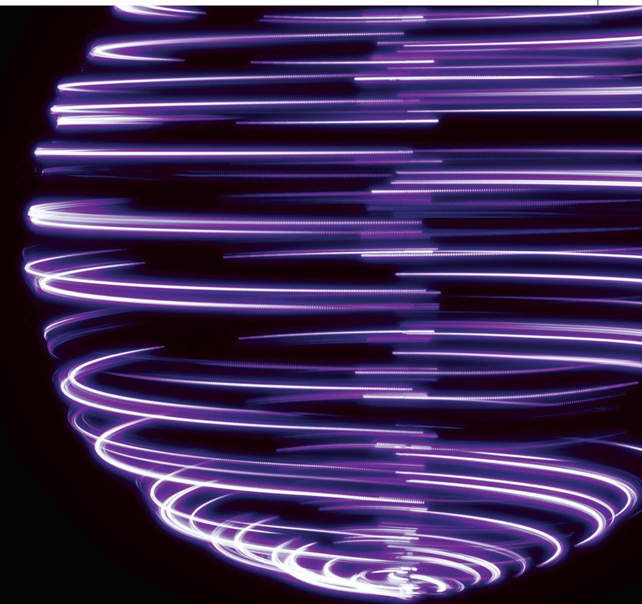

Organization Theory & Design

An International Perspective

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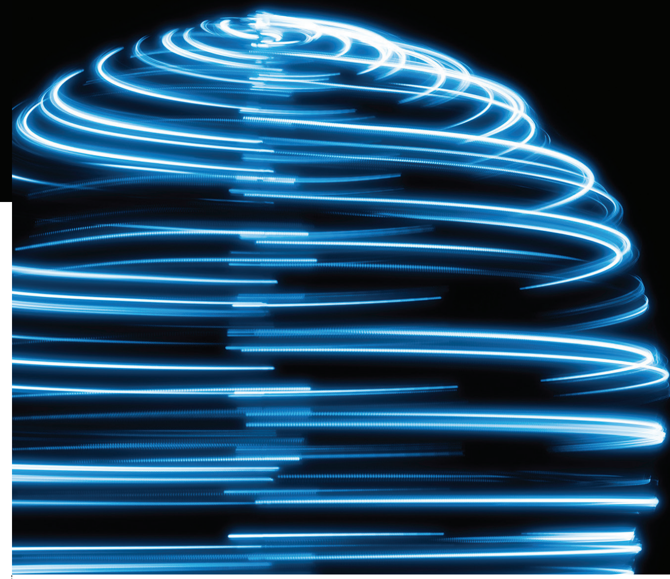

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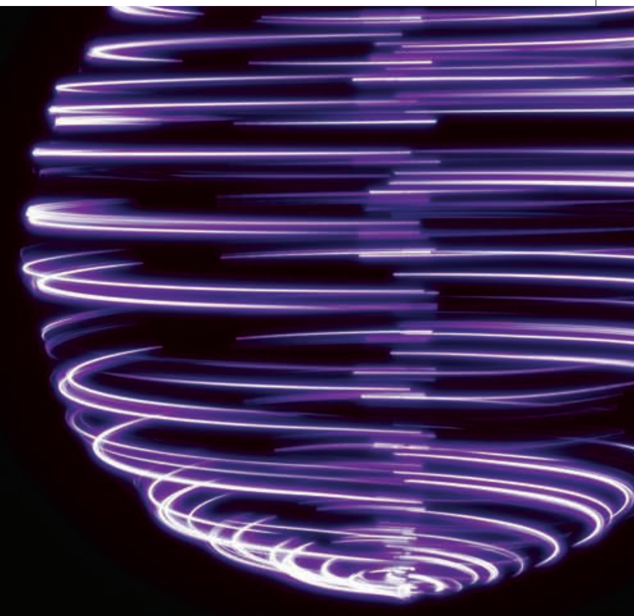

Organization Theory & Design

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& Hugh Willmott

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PREFACE

This fourth edition of *Organization Theory and Design: An International Perspective*, explores contemporary issues in organization design using both classic ideas and contemporary theories while also mobilizing critical thinking. The aim is to help students understand different approaches to management. Throughout this new edition, examples are drawn from global sources, reflecting different issues and best practices faced by managers working in national and international business, public sector and non-profit environments around the world.

International economic liberalization combined with advances in information and communication technologies means that companies do not need to be enormous in order to compete internationally. We explore in the text how numerous smaller, more agile companies, often based in emerging economies, have been able to grow rapidly, and have in many cases outstripped the former market leaders in the established developed countries. These companies are embedded in distinctive cultures and they incorporate practices that have proven highly effective. These newcomers have often humbled many industry giants, although at the same time other well-established companies have adapted and flourished in new conditions nurtured by globalization and market liberalization.

These developments have served to underscore the key, yet repeatedly overlooked, insight that *there is no single, effective way of designing and managing an organization*. When we look around the world, we find very different organizations, designed on highly divergent principles and philosophies, succeeding in national and international markets. Similarly, organizations with very different management styles coexist in the global business environment.

What does this mean for managers? First of all, it is extremely important to be able to stand back, take stock, be self-reflective. How we see things is often quite different from the way others see things. Secondly, our efforts to exert control over our internal and external environments are likely to be partially successful at best. The potency and scope of management control should not be exaggerated, as unexpected and unscheduled developments and events disrupt the best laid plans. Appreciating the limits of executive intervention and control encourages the development of a more agile, facilitating and adaptable, rather than controlling, approach. Thirdly, it points to the importance of developing an ability to understand more intuitively and respond more skilfully to change, rather than relying upon techniques and procedures which hold out the overblown promise of rendering the future predictable.

In this textbook, we have tried to avoid one-size-fits-all answers because as noted, there is no single best way to design an organization, and no single best way to manage. These are *contingent* on circumstances, capacities, and in no small measure, on chance. We have sought to provide some, necessarily partial, illumination of how different organizations have dealt with diverse issues, as well as the pros and cons of their decisions, again bearing in mind that every situation is distinctive and dynamic. Leaders of organizations in both private and public sectors must become increasingly attuned to demands for economic and social justice in both their own organizations and in wider society. These challenges and responsibilities that we all face as members and leaders of organizations are what make the study of organization design both intellectually rewarding and of critical practical importance.

Distinguishing Features of *Organizational Theory and Design: An International Perspective*

Many students on a typical organization theory course do not have extensive work experience, especially at the middle and upper management levels, where organization theory tends to be consciously applied. Therefore, to help engage students in the world of organizations, this book contains a number of special learning features: A Look Inside chapter introductions, Bookmarks, the Leading by Design feature, Counterpoint features, In Practice examples, and end-of-chapter and integrative cases for student analysis.

A Look Inside This feature introduces a topic by exploring examples of companies that have faced the organizational design issues featured in that chapter. Many of the A Look Inside organizations have enjoyed success, but others have struggled despite imaginative responses to organizational challenges. These cases show that in a turbulent business environment, failure may be due to factors outside the control of management, rather than because of bad decisions or poor management skills. A Look Inside examples include companies from around the world such as Philips NV, Uber, Nokia, Interpol, Boots PLC, Tesla and Nissan.

Bookmarks Bookmarks are a unique feature of the *Organization Theory and Design* texts. The Bookmarks are short reviews of books that address current issues of concern for managers. They offer an introduction into the wider management literature that addresses real-life challenges of contemporary organizations, encouraging students and practical managers to extend their reading on organizational theory and design.

Updated Case Examples This fourth edition contains a balance of case examples from different parts of the world as well as numerous examples to illustrate theoretical concepts in today's context. We look at companies from emerging economies, like India's *Tata Group*. European organizations are a particular focus, with discussion of corporations such as Germany's *Continental* and *Volkswagen*, Britain's *Virgin Group* and Spain's *Zara*. The success of – and challenges facing – Asia-Pacific organizations is also examined, through numerous examples such as *Toyota* and *Sony* of Japan, Korea's *Samsung* and Australia's *Oroton*.

Leading by Design This feature highlights organizations that have applied new design ideas, based both on contemporary management thinking and the availability of new information and communication technologies. Typically, these organizations have undergone a major shift in organization design, strategic direction, values, or culture as they strive to be more competitive in today's turbulent global environment. Many of the Leading by Design examples illustrate company transformations towards knowledge sharing, empowerment of employees, new structures, new cultures, the breaking down of barriers between departments and organizations, and the joining together of employees in a common mission. Once again, the Leading by Design examples for this edition have been drawn from across the world, with up-to-date exploration of organizational structure and performance. Cases include the *Rolling Stones*, *Canva*, *Google* and *Shazam*.

In Practice These cases illustrate theoretical concepts in organizational settings. In Practice cases include Ryanair, Zara, PayPal and Pret A Manger.

Manager's Brief This feature, which is located on the associated online platform, tells students how to use concepts to analyze cases and manage organizations.

ONLINE BRIEF 1.1

Counterpoints To provide examples of how different organizations have dealt with diverse issues, as well as the pros and cons of their decisions, we provide Counterpoint features that look at organizational practices and problems to challenge conventional wisdom and stimulate reflection. Counterpoints are available within the text with additional examples in the companion material online. They are intended to signal the existence of alternative ways of looking at organization theory and design, providing different perceptions and perspectives. The Online Counterpoints hosted on the associated online platform are labelled independently and are identifiable by the margin icon shown here.

? ONLINE COUNTERPOINT

Text Exhibits Frequent exhibits are used to help students visualize organizational relationships, and the artwork has been presented to communicate concepts clearly.

Summary and Interpretation The summary and interpretation section tells students how the chapter points are important in the broader context of organizational theory.

Case for Analysis Cases from prominent business scholars, tailored to chapter concepts to provide a vehicle for student analysis and discussion.

Integrative Cases The integrative cases at the end of the text are positioned to encourage student discussion and involvement, and cover cross-cutting themes that have been addressed in the text. Particular attention has been paid to selecting integrative cases from a diverse range of geographical and organizational settings, from profiling the sequence of potentially avoidable errors that led to the Nimrod disaster (when a military aircraft caught fire tragically killing the crew), to a dispute on a New Zealand farm which highlights the inherent tensions and challenges faced when a business moves from a family-run to a corporate organization.

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Richard L. Daft is the Brownlee O. Currey, Jr. Professor of Management and Principal Senior Lecturer in the Owen Graduate School of Management at Vanderbilt University. Professor Daft specializes in the study of organization theory and leadership and is a fellow of the Academy of Management. He has served on the editorial boards of the *Academy of Management Journal, Administrative Science Quarterly and Journal of Management Education*. He was the associate editor in chief of *Organization Science* and served for three years as associate editor of *Administrative Science Quarterly*.

Professor Daft has authored or co-authored 14 books, including *Management* (Cengage/South Western, 2017), *Building Management Skills: An Action-First Approach* (with Dorothy Marcic, South-Western, 2014); *The Executive and the Elephant: A Leader's Guide for Building Inner Excellence* (Jossey-Bass, 2010); *The Leadership Experience* (South-Western, 2018) and *Fusion Leadership: Unlocking the Subtle Forces That Change People and Organizations* (with Robert Lengel, Berrett-Koehler, 2000). He has also written dozens of scholarly articles, papers and chapters in other books. His work has been published in *Administrative Science Quarterly, Academy of Management Journal, Academy of Management Review, Strategic Management Journal, Journal of Management, Accounting Organizations and Society, Management Science, MIS Quarterly, California Management Review* and *Organizational Behavior Teaching Review*. Professor Daft is also an active teacher and consultant. He has taught management, leadership, organizational change, organizational theory and organizational behaviour.

Professor Daft has served as associate dean, produced for-profit theatrical productions and helped manage a start-up enterprise. He has been involved in management development and consulting for many companies and government organizations, including the National Academy of Science, Oak Ridge National Laboratory, American Banking Association, Autozone, Aegis Technology, Bridgestone, Bell Canada, Allstate Insurance, the National Transportation Research Board, Nortel, the Tennessee Valley Authority (TVA), State Farm Insurance, Tenneco, the US Air Force, the US Army, Eli Lilly, Central Parking System, Entergy Sales and Service, Bristol-Myers Squibb, First American National Bank and the Vanderbilt University Medical Centre.

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Hugh's research interests span the sub-fields of management organization studies. He has co-authored two major textbooks, including *Introducing Organizational Behaviour & Management* (co-edited with David Knights, Cengage Learning, 2017) and, additionally, has published over 20 books and contributed to a wide range of management and social science journals. He is particularly interested in the development and application of management theory by drawing upon the resources of critical social science. Substantively, his research has contributed to the areas of professionalization, teamwork, regulation, business ethics, management learning, accounting policy and practice, organizational culture, financialization and the management of higher education. With Jeroen Veldman, Senior Research Fellow at Cass, he is currently engaged in the study of comparative models of corporate governance [themoderncorporation.wordpress.com/]. Hugh is a past Associate Editor on *The Academy of Management Review* and also served an equivalent role on the journal *Organization*. He has been a board member of numerous other journals including *Administrative Science Quarterly, Journal of Management Studies*, and *Organization Studies*. He was appointed to the Business and Management Panel for the UK Research Assessment Exercise 2008 and was also a member of the 2014 REF Panel. He is a member of the British Academy and in 2011 he was awarded an honorary doctorate at Lund University, Sweden.

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Currently he focuses on three elements of organizational theory: organizational development, strategic development and HR. He approaches these three topics from both a theoretical and a practical perspective, and his work is based on the idea that the interaction of theory and practice is particularly fruitful when the two aspects challenge each other. His contributions include many books, articles and lectures.

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IMAGE CREDITS

PART 1

INTRODUCTION TO ORGANIZATIONS

CHAPTER 1

WHAT ARE ORGANIZATIONS?

Philips NV

Philips was one of the world's first genuine multinationals. Founded in Eindhoven, Netherlands by Gerard Philips in 1891, the company initially manufactured light bulbs, seizing the opportunity of widespread home and business electrification. Electricity soon brought opportunities for inventing and selling further electrical devices, and during much of the twentieth century, no European company seized market opportunities better than Philips. The relatively small size of Holland's domestic market pushed the company to seek new markets on the continent and eventually beyond. By the mid-1980s, the company was active in 14 different divisions ranging from the original lighting sector to large appliances and the new field of computers. Philips' product development laboratories were unparalleled, developing cutting-edge electrical equipment across the company's vast product range.

But as is often the case in business, at the height of Philips' success, storm clouds were gathering on the horizon. Several different factors were beginning to work against the company as it approached its second century.

One issue was the very loose organizational structure that the company was forced to adopt when it internationalized. Before the great era of trade and market liberalization that began in the 1970s, it was simply not possible to centralize functions globally. Indeed, during the Second World War, when Holland was occupied by the German Nazis, international branches of Philips basically operated entirely independently. Even in normal times, companies wishing to enter different countries' markets were typically forced to set up fully functional national units, with their own manufacturing, marketing and distribution systems.

The national units that had to be set up tended to become autonomous power bases. In theory this could have been beneficial, if innovative approaches were developed and tested in one country and then rolled out internationally, as was the case for example for the Anglo-Dutch consumer products firm, Unilever.[1] But consumer electronics are different from household products; they are costly to develop and generally don't require tailoring to individual markets; thus centralized product development tends to be the preferred approach. Autonomy sometimes reached extremes, for example when Philips in North America decided to manufacture early video recorders based on a competitor's product.

Another problem was bureaucracy and inefficiency. Philips was so successful, for so long, that workers and managers began to see their positions as jobs-for-life. Employment grew and grew; ultimately Philips had over 300,000 employees worldwide. Eindhoven itself was every bit the company town; Philips took on numerous social projects ranging from the Philips library and theatre to the PSV Eindhoven football team, which under Philips' benevolent sponsorship became one of the giants of European club soccer. The Philips product development division seemed to lose its knack for creating products that fit customer needs. Its early forays into computers, in particular, were not competitive with either the US giants like IBM and later Compaq, or the emerging brands from the Far East.

By the 1980s, Japan had emerged from its early post-war avatar as producer of cheap copies of Western consumer goods. In motorcycles, then the automobile industry, and fatefully for Philips, in electronics.

Philips' bottom line suddenly turned red. Despite fitful efforts to cut costs in the late 1980s, by 1990 the company had run up an accumulated deficit of $2.6 billion.[2]

Philips turned to a new company president, Jan Timmer, who slashed the company's workforce by 50,000, got out of the computer business altogether, terminated a number of unprofitable joint ventures and reoriented the company towards Asian production facilities in place of increasingly costly Europe. Timmer's hard-nosed strategy stemmed some but not all the bleeding. In 1996, Sony, Philips' biggest competitor, generated sales of $43 billion with 150,000 employees, while Philips managed only $37 billion with almost twice as many workers. In 1996, and again in 2001, the company changed its top management, but the same cycle of job cuts, divestments, market upticks and then disappointing losses continued.[3] The competitive situation became even more dire, as Korean brands like LG had joined the Japanese giants as global competitors, cleaning up the cost-conscious market segment, while Sony and Toshiba had a stranglehold on the most affluent customers.

The enigma of Philips was that while the company's engineers brought many of electronic technology's most important innovations to market (for example the audio cassette, the compact disc *and* the DVD), it didn't seem able to take commercial advantage of the breakthroughs. In the early years of the new millennium, Philips resolved to move away from being a manufacturing-driven company towards one that would be customer-driven, a change in direction that involved a much greater focus on what insiders called 'The Marketing Journey'.[4]

From 2004 onwards, Philips' fortunes seemed to be on the upswing. Finally, the company seemed to be doing well with its innovations. Medical systems and consumer electronics sales were up 9 per cent and 10 per cent respectively, but temporary growth blips like that had been seen before. What was more important, sales from newly introduced products rose sharply. In the medical area, 70 per cent of sales were of products introduced in the previous two years, unusual for a field with typically long product cycles. Company-wide, the proportion of sales derived from products introduced in the previous two years rose from a quarter in 2003 to over half in 2006.

In 2008, Philips moved to simplify its organizational structure, establishing three core divisions of consumer, healthcare and lighting, which helped to focus the company on its best-performing product lines. The current CEO Frans van Houten, who arrived in mid-2011, has taken this focused strategy to a new level, by ruthlessly eliminating 'sunset' products, particularly in the globally cut-throat home entertainment sector, where convergence between the computer and entertainment segments can wipe out whole product categories overnight while creating new 'must haves' such as tablets. Televisions, long the company's talisman products, were ditched altogether, along with video players, another declining segment.

Van Houten is acutely aware that in a sprawling company such as Philips, wayward units can lose touch with market trends and eventually end up hurting the overall bottom line. So in conjunction with the CFO, van Houten designed a 'Dashboard' computer programme allowing senior managers to look at performance across the company and its different geographic and product operations, and quickly check performance and trends.

This helped Philips to develop a more sophisticated and forward-looking product focus. For example, in Western markets with their affluent, ageing populations, the company is focusing particularly on consumer healthcare products, while in emerging markets it is tailoring its product design and marketing to meet the needs of new and discriminating consumers. Originally, Philips focused on other products in emerging markets, such as vegetable choppers in Russia, and shavers in China. Increasingly, in both developed and emerging markets, however, Philips is focusing on health care, and indeed brands itself as a health care business. Revenues and profits have been solid. In 2017 the company had profits of €1.8 billion on sales of €18 billion.

Philips' trajectory is similar to that of many other companies in today's volatile environment, where companies constantly revisit their organizational design in order to address changing consumer preferences and business environments.

Organization Theory in Action

Topics

Many of the topics covered in this book are illustrated in the Philips case. Consider, for example, the company's failure to respond to, or control, competitors and customers in the fast-paced external environment; its difficulties implementing strategic and structural changes to attain effectiveness; difficulties coping with the problems of large size and bureaucracy; lack of adequate cost controls; challenges associated with an outmoded corporate culture that stifled innovation and change; and its repeated efforts to redesign itself in order to address these challenges. These are illustrative of the issues with which organization theory is concerned (but see the Counterpoint, below, for another viewpoint on organizational design).

COUNTERPOINT 1.1

Note how these topics tend to take a managerial focus and also to assume that problems are the same for everyone. Those who lost their jobs at Philips might well question this view. They might challenge the legitimacy of a system that resulted in poor performance. What about the accountability of executives to their employees as well as to their shareholders? Employees bore the brunt of the poor decision-making; but they had little input into the strategic decision-making process. Organization theory extends beyond a managerial perspective to ask more fundamental questions about how and why organizations are designed the way they are, who creates and authorizes the design, and who may also explore alternative designs. Design is not reducible to a technical matter; it is an inherently political one that involves the distribution of power and opportunity. Whatever design is calculated to be most appropriate, efficient or effective, it will reflect the values and priorities of its architects. Implementation of the design will be contingent upon the political will to implement and the capacity to overcome resistance to it.

ONLINE BRIEF 1.1

Of course the application of organization theory is not limited to firms like Philips. All companies and other organizations – from the largest to struggling start-ups – undergo changes that can be illuminated and informed by theories of organization and its design. Organization theory is no less relevant to public sector and nonprofit organizations, including central and local government departments, non-governmental organizations (NGOs), arts organizations, charities and so on. In different ways, people responsible for the design and development of organizations as well as everyone working in them face challenges comparable to Philips, even if they are accountable to politicians or trusts rather than shareholders, and are generally more influenced by an ethos of public or charitable service rather than private gain.

The story of Philips is important because it demonstrates that organizing involves continuous challenges in the face of uncertainty and change. No organization – not even tax departments or funeral parlours – are protected from changes in technologies, conventions, customer preferences, availability of supplies, etc. Organizing is a fraught and vulnerable process. Lessons are not learned automatically. Designs are only as strong – ethically as well as economically and technically – as the decision-makers who take primary responsibility for shaping structures and cultures. Organizations (see Counterpoint 1.2) are not static. There is a continuous process of adaptation in response to changes beyond the organization. Managers of change endeavour to exploit or control those changes and, in so doing, contribute to the changes which affect the other organizations. Surveys of top executives indicate that coping with rapid change is the most common problem facing managers and organizations.[5] Organizations face the challenge of finding ways of changing themselves or changing their environments to become technically, economically and ethically more responsive and effective. Of course, it is important to acknowledge that organizational design is only one factor that can help a company to succeed. Conversely, if a company is successful, it doesn't necessarily mean that this was because of good organizational design, and therefore others should emulate the organizational structure. Perhaps the company's healthcare division designers just came up with a market-leading gadget, for example!

COUNTERPOINT 1.2

The term 'organizations' is repeatedly used in everyday life as well as in this text. How are we to interpret it? When we say 'organizations face challenges' or 'the company failed to …' we probably do not mean all the people who work in that organization or company. In fact, organizations are often very diverse, with different departments and factions pulling in different directions as well as attempting to cooperate with each other.

Organizations are often also hierarchical and undemocratic. That means that it is only a handful of people who actually determine how 'challenges' are to be 'faced' or how 'failure' is to be addressed. In corporations, executive decision-makers are typically accountable primarily to the owners, or shareholders and creditors. Decisions that they make may pay attention to other stakeholders insofar as they are relevant for the profitable growth of the business. These decisions may also be coloured by executives' own priorities and preferences, including any material or career advantages that flow from the decisions they make.

When reading this book, therefore, it is relevant to take acount of what may be termed the 'political economy' of organizations.

The political economy of organizations is defined by Zald and Hasenfeld as 'a theoretical framework that focuses on two key components of organizations and their interaction: the polity and the economy of organizations. The polity, or political system of organizations, is the constitution, or fundamental norms, of the organization and the system of authority, power and influence. The economy is the economic structures and processes of the organization; that is, the system for processing and transforming raw materials into the goods and services that the organization produces'.[6]

Current Challenges

Some specific challenges are dealing with globalization, maintaining high standards of ethics and social responsibility, responding rapidly to environmental changes and customer needs, and supporting diversity. Perhaps most significant of all has been the disruption – in both a positive and a negative sense – of the information revolution: the rise of the digital organization, in an increasingly digital world.

Globalization With rapid advances in technology and communications, the time it takes to exert influence around the world from even the most remote locations has been reduced from years to only seconds. Markets, technologies and organizations are becoming increasingly interconnected.[7] It is now more feasible to locate different parts of an organization wherever it makes the most business sense: top leadership in one country, technical brainpower and production in other locales, depending upon calculations of where is best for cutting costs, generating revenues and thereby increasing the return on capital invested to shareholders. A related trend is to contract out some functions to organizations in other countries or to partner with foreign organizations to gain global advantage. India's Wipro Ltd used to sell cooking oils; by 2018, the company had 165,000 employees in over 50 countries, who develop sophisticated software applications, design semiconductors and manage back-office solutions for giant companies from all over the world. In 2013, the company decided to demerge all of its 'old' non-IT units from the main company, helping the company focus on its IT core.[8] Globalized production is not just a feature of emerging economy companies; many of Intel's new chip circuits are designed by companies in India and China. These organizations can often do the job 50 to 60 per cent more cheaply than companies based in more developed, but more expensive, capitalist economies, creating new advantages as well as increased competitive pressures.[9] Companies large and small are searching for the structures and processes that can help them reap the advantages of global interdependence and minimize the disadvantages.

Ethics and Social Responsibility Issues of ethics and social responsibility – relating to concerns about ecological sustainability, and not just corporate survival – are becoming increasingly important; and corporations, in particular, are being expected to take a lead on addressing these issues. At the same time, the list of executives and major corporations involved in financial and ethical scandals casts a shadow over corporate life. The sordid story of high-flying Enron Corporation, where managers admitted they inflated earnings and hid debt through a series of complex partnerships, was hardly unprecedented but has, hopefully, been a loud wake-up call.

Executives profited handsomely from the fraud at Enron, but when the company collapsed, employees and average investors lost billions. Arthur Andersen LLP, the company's auditor, was found guilty of obstruction of justice for improperly shredding documents related to the Enron investigation, and the scandal caused Andersen to disappear altogether as a company. Elsewhere, the UK's flagship defence contractor, BAE, became embroiled in a multi-billion pound corruption scandal that precipitated a diplomatic crisis and diverted attention away from the company's business activities.[10] Lax financial and management controls at France's giant Société Générale financial services company allowed a junior trader to gamble away over a billion euros in company funds.[11] In 2016, the release of the so-called Panama Papers detailing the efforts many major corporations have made to avoid taxation caused a major stir and raised questions about the overall ethical foundations of capitalism.[12] Scandals are not confined to private corporations. Britain's Revenue and Customs agency managed to lose personal data on 25 million citizens – nearly half the entire population – somewhere in the mail system.[13] In 2018, Malaysia's long-time ruling party was defeated in elections following revelations of massive corruption at 1Malaysia Development Berhad (1MDB), a state-owned investment firm.[14] Pick up any major newspaper on almost any day, and there will be a story about some corporation, government department or even entire administration embroiled in some form of 'sleaze' or wilful incompetence.

While executives and officials are inclined to insist that it is a few bad apples or a single junior employee involved in all the wrongdoing, the ordinary citizen is quickly forming the opinion that all executives and senior managers are crooks.[15] The public is disillusioned with such 'leadership', and leaders – corporate and political – are under pressure to hold their organizations and employees to higher standards of ethics and competency.

Responsiveness A third significant challenge for organizations is to respond quickly and decisively to environmental changes, organizational crises and shifting customer expectations. For much of the period between the end of the Second World War in 1945 and the onset of the global financial crisis, organizations operated in relatively stable conditions. There was little need to search for new ways to cope with increased competition, volatile environmental shifts or changing customer demands. Today, globalization and advancing technology have accelerated the pace at which organizations in all industries must adapt their internal structures and systems in order to keep rolling out new products and services that are sufficiently competitive. Innovations can be incremental or disruptive; technological innovations have increasingly had combined impacts resulting in the rapid emergence of new markets and the sudden disappearance of others. Fifty years ago, Philips' managers probably never imagined that the company would ever abandon its flagship television production as young people increasingly consume information and entertainment on mobile devices![16]

? ONLINE COUNTERPOINT 1.1

Companies that relied on mass production and distribution techniques have had to adjust to customer demands, often fuelled by leaner and more nimble competitors, for the tailoring of products and services to their specific requirements. Reflecting the importance attributed to 'customization' and branding, the financial basis of today's economy is *information*, not machines and factories. Intangible assets, including corporations' investments in people as well as financial products, become increasingly important relative to tangible assets. In the mid-1900s, tangible assets represented 73 per cent of the assets of nonfinancial corporations in the United States. By 2002, the percentage had shrunk to about 53 per cent, and by 2017 it was claimed that intangibles accounted for 80 per cent of US corporate assets.[17, 18, 19] Knowledge involved in designing and coordinating the manufacture of products and the delivery of services becomes increasingly important. In this process, it becomes clearer that, ultimately, it is employees and their knowledge, not the means of production or of service delivery, who provide the best chance of organizational prosperity. (See Counterpoint 1.3). At the same time, as demonstrated by the Enron and Société Générale scandals, among many others that continue to come to light as a result of the global financial crisis that began in 2007, the line between making appropriate use of knowledge and indulging in out-and-out gambling with other people's money, or even illegal schemes, has become ever more blurred.[20]

COUNTERPOINT 1.3

If this point about employees being the most precious resources is accepted, why do you think that employees are typically able to exert so little influence over key corporate decision-making, and what are the implications of this for organizational theory and design?

The Digital Workplace Organizations have been flooded by information technology that affects how they are designed and managed, and the external environments in which they do business. In today's workplace, many employees perform much of their work on computers and may work in virtual teams, connected electronically to colleagues around the world. In addition, organizations are becoming enmeshed in electronic networks. More and more business takes place by digital processes over a computer network rather than in physical space. End-to-end digital supply-chain networks are used to keep in touch with customers, take orders, buy components from suppliers, coordinate with manufacturing partners and ship customized products directly to consumers. This trend towards *disintermediation* – eliminating the middleman often by consuming the unpaid time of the customer who, for example, experiences the frustration of waiting for, and dealing with, responses from call centres – is affecting every industry.[21] Increasingly, companies and even networks of businesses share information openly across the organization, enabling decision-making to be made with less reference to organizational hierarchy. These developments mean that a pressing requirement of leadership in organizations is to become technologically savvy in addition to managing a web of relationships that reaches far beyond the boundaries of the physical organization to employees, suppliers, contract partners and customers.[22]

Diversity In advanced capitalist societies, today's average worker is older, and many more women, ethnic minorities and immigrants are seeking job and advancement opportunities. This development brings a variety of challenges, including fully recognizing and embracing diversity, balancing work and family concerns, and coping with the differences associated with varying cultural styles. People from diverse ethnic and cultural backgrounds offer varying styles of interacting and working; and managing diversity may be one of the most rewarding challenges for organizations competing on a global basis. Consider the consulting firm McKinsey & Co. In the 1970s most consultants were American, but by the turn of the twenty-first century McKinsey's chief partner, Rajat Gupta, was Indian, and 60 per cent of consultants were from outside the United States, coming from 40 different countries.[23] But diversity is often the exception rather than the rule. Research has indicated that women's style of working may hold important lessons for success in the emerging global world of the twenty-first century, but the glass ceiling which keeps women from reaching positions of top leadership remains in place.[24]

LEADING BY DESIGN

The Rolling Stones

They may be old, but they keep on rocking and rolling after more than 50 years in the music business. Indeed, in November and December 2012 the company embarked on a highly lucrative four-concert 50th anniversary tour, with Mick Jagger, 69, Keith Richards, 68, Ronnie Wood, 65, and Charlie Watts, 71, joined for the first time in 20 years by former members Bill Wyman and Mick Taylor. Tickets sold out in minutes despite an eye-watering starting price of over $150. The Rolling Stones have enjoyed phenomenal commercial success in recent decades, generating billions of dollars in revenue from record sales, song rights, concert tickets, sponsorships and merchandising. In 2016 the Stones famously accompanied President Obama in his historic visit to Cuba, performing in front of 200,000 fans in the country's biggest ever rock concert. Perhaps responding to an impending post-physical existence, in 2018 the Stones launched a 3D exhibit that allows fans to virtually immerse themselves in all things Stones.

The Rolling Stones group has been cited as one of the world's ten most enduring organizations, according to a study commissioned by the consulting firm Booz Allen Hamilton. In 2018, their 'lips' logo T-shirt was voted the most iconic t-shirt design of all time. One reason for the Stones' success is that the band operates like an effective global business organization. The Stones have set up a solid organizational structure, with different divisions to run different aspects of the business, such as touring or merchandising. At the top of the organization is a core top management team made up of the four band members: Mick Jagger, who acts as a sort of CEO, Keith Richards, Charlie Watts and Ronnie Wood. This core team manages a group of somewhat autonomous yet interlocking companies that include Promotour, Promopub, Promotone and Musidor, each dedicated to a particular part of the overall business. At times, depending on what's happening in the organization, each company might employ only a few dozen people. When the band is touring, on the other hand, head count goes way up – on a concert night sometimes reaching 350 – and the organization resembles a flourishing start-up company. Jagger himself keeps a close eye on the market price range for concert tickets so that the band can keep their prices competitive. That sometimes means cutting costs and increasing efficiency to make sure the organization turns a profit.

The Stones also recognize the importance of inter-organizational partnerships, cutting sponsorship deals with big companies such as Sprint, Anheuser-Busch, Microsoft and E*Trade. They hire lawyers, accountants, managers and consultants to keep in touch with changes in the environment and manage relationships with customers (fans), partners, employees, record companies, promoters and tour sites. Key among their advisers was the financier Prince Rupert Loewenstein, co-owner of a small merchant bank, who originally came on board as a consultant but soon quit banking to work full time for the band until 2007. Jagger learned from the early days that creativity and talent aren't enough to ensure success – in the mid-1960s, the band was selling millions of records but still living hand to mouth. Effective control systems and widespread information sharing make sure that doesn't happen today. The band's controversial decision to take up residency outside the UK to avoid heavy taxation on the advice of Prince Loewenstein, certainly helped the band members' bottom line!

'You don't start to play your guitar thinking you're going to be running an organization that will maybe generate millions', Jagger says. Yet by understanding and applying organization theory, the Rolling Stones have become one of the most successful organizations ever in the music industry – and the wealthiest rock 'n' roll band on the planet, even if a recent biographer has claimed that these days, they are just in it for the money!

Sources: Andy Serwer, 'Inside the Rolling Stones Inc.', *Fortune* (30 September 2002), 58–72; and William J. Holstein, 'Innovation, Leadership, and Still No Satisfaction', *The New York Times* (19 December 2004), Section 3, 11. Alexis Petridis (26 November 2012), The Rolling Stones, O2, London – review, *The Guardian*. *Daily Telegraph* (26 November 2012), 'The Rolling Stones celebrate 50 years with sold-out O2 show'. Lynn Barber (17 February 2013) Rock royalty; 'He hated their music, but financial wizard Prince Rupert Loewenstein saved the Rolling Stones', *The Sunday Times*. 'Rolling Stones are a "bitter married couple" just in it for the money', *Daily Telegraph*, 1 April 2016, accessed at www.telegraph.co.uk/music/news/rolling-stones-are-a-bitter-married-couple-just-in-it-for-the-mo/, Jonathan Watts, 'Rolling Stones play rock'n'roll diplomats in Cuba's "biggest concert ever"', 25 March 2016, accessed at www.theguardian.com/world/2016/mar/25/rolling-stones-cuba-historic-concert-diplomacy. Exhibition news, Rolling Stones website, www.rollingstones.com/2018/10/08/exhibitionism-heads-to-sydney/. Rob Knight, 'Rolling Stones Logo is Most Iconic Design of All Time, Poll Claims', Independent, 23 October 2018, www.independent.co.uk/life-style/rolling-stones-logo-tshirt-lips-design-mick-jagger-keith-richards-ronnie-wood-a8597306.html.

Purpose of this Chapter

The remainder of this chapter explores the nature of organizations and organization theory today. The next section provides a formal definition of organization. It then introduces some basic concepts for describing and analyzing organizations before noting the diversity of types of organizations and outlining their contemporary importance. The chapter closes with a brief overview of the themes to be covered in this book.

What is an Organization?

Organizations are hard to see. We see a tall building, a computer workstation or a friendly employee; but 'the organization' is an abstract notion. Physically, it may be scattered among several locations in different continents. We live in a world so populated by organizations that we tend to take their existence for granted. We hardly notice that we are born in a hospital, have our birth records registered in a government agency, are educated in schools and universities, are raised on food produced in factory farms, are treated by doctors engaged in a joint practice, buy a house built by a construction company, borrow money from a bank, turn to police and fire departments when trouble erupts, receive an array of benefits from government agencies and so on.[25]

Definition

Organizations as diverse as a church, a hospital and a giant corporation like Philips have characteristics in common (see Counterpoint 1.4).

COUNTERPOINT 1.4

When it is claimed that 'organizations … have characteristics in common' it is important to reflect on what we are doing. We are attributing specific, ostensibly shared characteristics to very diverse phenomena. It is rather like saying that all employees have 'characteristics in common' – that is, they all receive payment for their contribution and, therefore, they can be analyzed in the same way. But the nature and the meaning of this payment will likely differ – for example, between a cooperative where the employees co-own and co-control the organization and a privately owned company where most employees have at best a very minimal ownership stake and no significant control. This approach risks overlooking the diversity of organizations. *They are diverse both in their composition and the conditions of their operation*. Diversity tends to be overlooked when it is assumed that one 'model' of organization is equally relevant and successful for grasping the salient features of very different kinds of organization. Or that one, 'dominant' model is readily applicable to all organizations.

The definition used in this book to describe **organizations** is as follows: organizations are (1) social entities that (2) are goal-directed, (3) are designed as deliberately structured and coordinated activity systems, and (4) are linked to the external environment. In the light of Counterpoint 1.4 (above), it is worth bearing in mind the particularity of this definition. Like all definitions it has limits that flow from the assumptions that are made – for example, with respect to the extent that goals are rationally determined or broadly shared. Another way to think of a 'goal' is as a notion invoked by executives to convince employees that objectives are shared and rationally deliberated rather than politically defined through struggles and coalition building (see Counterpoint 1.5).

The key element of an organization is not a building or a set of policies and procedures; organizations are made up of people and their relationships with one another. An organization exists when people interact with one another. The importance of people and their interactions is evident in a growing emphasis on empowering employees by increasing opportunities to learn and to contribute as they work together towards ostensibly 'common' goals.

Managers deliberately structure and coordinate organizational resources to achieve '*the organization's purpose*' (see Counterpoint 1.5). However, even though work may be structured into separate departments or sets of activities, there is a trend towards improving horizontal coordination of work activities, often using teams of employees from different functional areas to work together on projects. Boundaries between departments, as well as those between organizations, are becoming more flexible and diffuse as companies face the need to respond more rapidly to changes. Today, many companies are even cooperating with their competitors, sharing information and technology to their mutual advantage, in joint ventures and other collaborative arrangements.

COUNTERPOINT 1.5

It is worth stressing that this is simply one possible definition of organization(s) that is potentially misleading as well as illuminating.

Social entities This is a key point as it indicates that organizations are cultural and political as well as economic phenomena. They are 'social' all-the-way-down. To regard organizations as equivalent to machines or as technologies is to invite disaster. Organizations comprise people who, in contrast to material entities, interpret their situations and are capable of ignoring or resisting, collectively and individually, often in subtle and difficult-to-control ways, demands that are made of them.

Goal-directed This element of the definition emphasizes how activity in organizations is highly instrumental (e.g. to get paid, acquire a skill or gain in status) rather than intrinsically meaningful. That is to say, such activity is strongly influenced by calculations concerning the most effective means of achieving ends or 'goals', whatever these may be. The idea that organizations are 'goal-directed' may be taken to imply that there is a single, consensually agreed goal. This is misleading in circumstances where there are considerable conflicts between stakeholders and between senior executives about the goal, or goals, that an organization is, or should be, pursuing. To suggest that organizations are goal-directed tends to conceal the extent to which these goals are contested and that whatever goal is attributed to an organization is the outcome of processes of negotiation and struggle that result in specific goals being privileged or 'hegemonized', at least for the time being. For this reason, it is necessary to place scare quotes[26] around the idea of 'common' goals or the shared 'purpose' attributed to an organization.

Designed as deliberately structured and coordinated activity systems In contrast to other human 'activity systems', such as the family, it is likely that the division and coordination of labour in work organizations will be more 'deliberately structured'. For example, there will likely be formal job descriptions and reporting procedures. It would be a mistake, however, to assume that such designs are necessarily effective, or that an intended design is what operates in practice. Designs are frequently a product of ideals and/or compromises that incorporate fondly held beliefs, and they involve more or less participation in their design and cooperation in their operation from those who are expected to make the 'structures' work.

Linked to the external environment It is important to appreciate that organizations exist within a wider context or set of conditions. The idea of being 'linked' to the environment does not necessarily grasp the extent to which organizations are part-and-parcel of their 'environments' rather than simply connected to them. The so-called environment is shaped and changed by the organizations that comprise it. It is therefore necessary to place scare quotes around 'external environment'.

Types of Organizations

Some organizations are large, multinational corporations. Others are small, family-owned businesses. Some manufacture products such as cars or computers, whereas others provide services such as legal representation, banking or medical services. Later in this text, Chapter 8 will look at the distinctions between manufacturing and service technologies. Chapter 10 discusses size and life cycle and describes some differences between small and large organizations.

A further important distinction is between for-profit businesses and *nonprofit organizations*. With the proviso entered in Counterpoint 1.5, the topics in this text are of relevance to nonprofit organizations (also known as NGOs), although there are some important differences to keep in mind. The primary one is that the activities of managers in for-profit organizations are directed primarily at producing goods and services in a way that retains the confidence of shareholders. Managers in nonprofits do not face this particular constraint. They may, however, encounter many other challenges. These include the difficulty of securing funding or raising capital or competing with profit-making businesses. The distinctive characteristics of nonprofit organizations created by this difference present unique challenges for their organizational leaders.[27]

Financial resources for nonprofits typically come from sources such as government grants, private foundation grants and donations, rather than from the sale of products or services to customers. In businesses, managers focus on developing and positioning the organization's products and services in ways that are intended to increase sales revenues. Nonprofit organizations are responsive to demands that are inadequately met by markets. In many nonprofits, services are provided to nonpaying clients, and a major problem for many organizations is securing a steady stream of funds as well as staff or volunteers to continue operating. Nonprofit managers are often committed to serving a large pool of potential clients with limited income. To serve these clients, they are obliged to keep organizational costs as low as possible and, in order to secure funding, must demonstrate a highly efficient use of resources.[28] As they do not have a conventional 'bottom line', it is more difficult or even inappropriate for nonprofits to measure their performance in terms of returns on capital invested, for example. Nonprofits have, instead, to measure intangible goals such as 'improve public health' or 'make a difference in the lives of the disenfranchised'. Interestingly, the emergence of a new hybrid type of organization known as a 'social enterprise' strives to combine commercial activity generating revenue with the pursuit of social goals.[29]

With these considerations in mind, many organization design concepts discussed throughout this book – such as setting goals and measuring effectiveness, coping with environmental uncertainty, implementing effective control mechanisms, satisfying multiple stakeholders and dealing with issues of power and conflict – are of relevance for nonprofit organizations. As in the case of for-profit businesses, the concepts and theories must be assessed, adapted and continuously revisited in relation to an assessment of distinct challenges and operating circumstances.

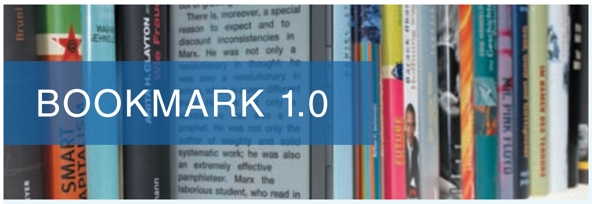
Importance of Organizations

Little more than a century ago, there were comparatively few organizations of any size or importance.[30] *Bookmark 1.0* examines the rise of the corporation and its contemporary significance. Why have organizations become so important? Exhibit 1.1 lists seven reasons.

EXHIBIT 1.1 Importance of Organizations

Organizations are credited with:

1. *Bringing together resources to achieve desired goals and outcomes*
2. *Producing goods and services*
3. *Facilitating innovation*
4. *Harnessing modern manufacturing, service and information technologies*
5. *Adapting to and influencing a changing environment*
6. *Creating value*
7. *Accommodating ongoing challenges of diversity, ethics and the motivation and coordination of employees*



BOOKMARK 1.0

Have you read this book?

The Company: A Short History of a Revolutionary Idea

BY JOHN MICKLETHWAIT AND ADRIAN WOOLDRIDGE

'The limited liability corporation is the greatest single discovery of modern times', is one conclusion of the concise and readable book, *The Company: A Short History of a Revolutionary Idea* by John Micklethwait and Adrian Wooldridge. Companies are so ubiquitous today that we take them for granted, so it may come as a surprise that the company as we know it is a relatively recent innovation. Although people have joined together in groups for commercial purposes since ancient Greek and Roman times, the modern company has its roots in the late nineteenth century. The idea of a *limited liability company* that was legally an 'artificial person' began with the Joint Stock Companies Act, enacted by the London Board of Trade in 1856. Today the company is seen as 'the most important organization in the world'. Here are a few reasons why:

- The corporation was the first autonomous legal and social institution that was within society yet independent of the central government.
- The concept of a limited liability company unleashed entrepreneurs to raise money because investors could lose only what they invested. Increasing the pool of entrepreneurial capital spurred innovation and generally enriched the societies in which companies operated.
- The company is the most efficient creator of goods and services that the world has ever known. Without a company to harness resources and organize activities, the cost to consumers for almost any product we know today would be impossible to afford.
- Historically, the corporation has been a force for civilized behaviour and provided people with worthwhile activities, identity and community, as well as a paycheck.
- The Virginia Company, a forerunner of the limited liability corporation, helped introduce the revolutionary concept of democracy to the American colonies.
- The modern multinational corporation began in Britain in the third quarter of the 1800s with the railroads, which built rail networks throughout Europe by shipping into each country the managers, materials, equipment and labour needed.

Large companies have been reviled throughout modern history – consider the robber barons at the beginning of the twentieth century. Nevertheless, during the past few years, it seems that large corporations have been increasingly in conflict with societies' interests. The key to ensuring that companies benefit the population through the business they do is that they remain accountable; not merely to shareholders but to all their stakeholders including workers, customers, and broader society.

The Company: A Short History of a Revolutionary Idea, by John Micklethwait and Adrian Wooldridge, is published by The Modern Library.

First, organizations bring together resources to generate wealth from the production of goods and services purchased by customers – an often complex process which could not be so readily accomplished by individuals acting on their own or in smaller units. To take a rather extreme example, putting together an aircraft carrier for use by the military involves 47,000 tons of precision-welded steel, more than 1 million distinct parts, 900 miles of wire and cable, about 40 million skilled-worker hours and more than 7 years of hard work by the organization's

17,800 employees.[31] Companies are continuously under pressure from shareholders to develop innovative ways of producing and distributing desirable goods and services. Two ways are through e-business and through the use of computer-based manufacturing technologies. Redesigning organizational structures and management practices can also contribute to reducing costs and thereby increasing profitability, at least in the short term.

Consider Google, which first came to prominence as the provider of the internet's most popular search engine, but which continues to adapt, evolve and grow along with the evolving internet. Rather than being a rigid service, Google is continually adding technological features that create an enhanced offer by accretion. At any time, Google's search engine site features several technologies in development so that engineers can get ideas and feedback from users at virtually no cost.[32] Some large businesses have entire departments charged with monitoring the 'external environment' and finding ways either to influence demand for its products and services or adapt to changes created by its competitors. Organizations such as Philips, AES Corporation, Heineken Breweries and IBM are involved in strategic alliances and partnerships with companies around the world. They are also engaged in lobbying governments and regulators and committing enormous sums to initiatives to strengthen the organization's position, the promotion of their brands or the avoidance of taxes (e.g. through transfer pricing and use of tax havens) in an effort to influence the environment, compete on a global scale, and thereby ensure that their stock remains attractive to investors.

Through all of these activities, organizations create value for owners as they deliver goods and services to customers, and provide employment to their staff. Managers are hired to analyze which parts of the operation create value and which parts do not, making tough decisions when necessary, as we saw in the Philips case at the beginning of the chapter. Ultimately it is this preoccupation that gives shape to how organizations cope with, and accommodate, today's challenges of workforce diversity, growing concerns over ethics and social responsibility, and address the question of how to motivate employees in conditions where job security may be absent or under threat. The challenge is to understand organizations in ways that are capable of analyzing and addressing such issues.

Framework for the Book

What topic areas are relevant to organization theory and design? How does a course in management or organizational behaviour differ from a course in organization theory? The topics within the field of organization theory are interrelated. Chapters are presented so that major ideas unfold in logical sequence. The framework that guides the organization of the book is shown in Exhibit 1.2. A cross-cutting theme throughout this edition of the book will be the rise of the digital organization as a factor that affects all facets of organizational life.

Part 1 introduces the basic idea of organizations as social systems and the nature of organization theory.

Part 2 is about strategic management, goals and effectiveness, and the fundamentals of organization structure.

Part 3 considers the various open system elements that influence organization structure and design, including the external environment, interorganizational relationships and the global environment.

Part 4 describes how organization design is related to such factors as manufacturing and service technology, organizational size and life cycle, and information and control systems.

Part 5 shifts to dynamic processes that exist within and between major organizational departments and includes topics such as innovation and change, culture and ethical values, decision-making processes, managing intergroup conflict, and power and politics.

EXHIBIT 1.2 Framework for the Book

Part 1 Introduction to Organizations

CHAPTER 1
What Are Organizations?

CHAPTER 2
Perspectives on Organizations

Part 2 Organizational Purpose and Structural Design

CHAPTER 3
Strategy, Organization Design and Effectiveness

CHAPTER 4
Fundamentals of Organization Structure

Part 3 Open System Design Elements

CHAPTER 5
The External Environment

CHAPTER 6
Interorganizational Relationships

CHAPTER 7
Designing Organizations for the International Environment

Part 4 Internal Design Elements

CHAPTER 8
Manufacturing and Service Technologies

CHAPTER 9
Information Technology and Control

CHAPTER 10
Organizational Size, Life Cycle and Decline

Part 5 Managing Dynamic Processes

CHAPTER 11
Organizational Culture and Ethical Values

CHAPTER 12
Innovation and Change

CHAPTER 13
Decision-Making Processes

CHAPTER 14
Conflict, Power and Politics

Plan of each Chapter

Each chapter begins with an organizational case to illustrate the topic to be covered. Theoretical concepts are introduced and explained in the body of the chapter. Several *In Practice* segments are included in each chapter to illustrate the concepts and show how they apply to real organizations. *Bookmarks* are included in most chapters to present organizational issues that managers face right now. These book reviews discuss current concepts and applications to deepen and enrich your understanding of organizations. The *Leading by Design* examples illustrate the dramatic changes taking place in management thinking and practice. There is no single 'right answer' in organizational theory and design. That is not just because different designs may deliver similar outcomes or because the field of organization has not yet reached a sufficient level of maturity. It is because whatever is counted as a 'right answer' implicitly appeals to some particular set of values (and, often, particular actors within the firm). An alternative set of values might view a very different answer as 'right', and it is not possible to provide values with a rational warrant. Counterpoints are included throughout, which present alternative perspectives on issues discussed in the book. There are two sets of Counterpoints; one printed within the book and the other available on the dedicated online platform accompanying the text. Each chapter closes with a 'Summary and Interpretation' section that reviews and explains important theoretical concepts.

Summary and Interpretation

The primary focus of analysis for organization theory is not the psychology of individual employees but, rather, their activities as organizational members. That is why this book is less directly concerned with topics such as supervision or the motivation of employees which are the mainstay of courses on organizational behaviour. Greater attention is paid here to how behaviour in organizations, which includes the supervision and motivation of employees, is shaped within the structure of social relations in which it occurs. Accordingly, our focus is upon the characteristics and dynamics of this structure – how they are influenced by the wider environment, and how key decision-makers attempt to manage their environment by designing effective structures. Students of this structure have conceived of its aspects and dimensions in terms of degrees of formalization, specialization, hierarchy of authority, centralization, professionalism, personnel ratios, size, organizational technology, environment, goals and strategy, and culture. All of them have been invoked to offer conceptual handles for analyzing organizations and informing actions within them.

Many types of organizations exist. One important distinction is between for-profit businesses, in which managers direct their activities towards earning money for the company, and nonprofit organizations, in which managers direct their efforts towards generating some kind of social impact. It is commonplace to conceive of managers as striving to design organizations to achieve what they deem to be effective or efficient. But the meaning of what is 'effective and efficient', let alone the purpose of their pursuit, is often contested because different stakeholders have different priorities that they want the organization to satisfy. In the end, the priorities that are pursued will reflect the outcomes of negotiations between stakeholders, with the most privileged and well resourced of these – owners and creditors in corporations – being able to exert the greatest influence upon how organizational goals are defined and pursued. There is nothing natural or inevitable about this, but a significant change – for example, in the direction of social enterprise, mutuality and sustainability – would require a shift in the balance of power accompanying organized resistance to entrenched forms of organization.

KEY CONCEPTS

organization theory   organizations

Discussion Questions

1 Any definition of organization provides a way of 'not seeing' as well as a way of 'seeing'. Discuss.

2 How do the challenges facing managers and employees within organizations influence one another?

3 Identify some key differences between organizations and consider how the challenges affect them in different ways.

4 Illustrate and explore how we live in an organizational world.

5. Explain ways in which the 'digital revolution' has changed organizations and provided managers with new challenges.

Notes

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CHAPTER 2

PERSPECTIVES ON ORGANIZATIONS

Images of Organization

As Gareth Morgan notes in *Images of Organization*, 'All theories of organization and management are based on implicit images', and associated languages. Each metaphor invites us to frame our attention, and thereby make sense of situations, in partial ways. Our experience is framed, consciously and unconsciously, by metaphors. Each metaphor offers a different perspective. Understandings and theories of organization and management are based on some metaphor – such as that of organization-as-machine or organization-as-organism.

The core idea of *Images of Organization* is that we act on the basis of how we conceive, metaphorically, of what organizations are. When conceiving of an organization as a machine, for example, we imagine the 'nuts and bolts' as 'inputs and outputs' and endeavour to design the most efficient means of achieving the required 'throughput'. Using the machine metaphor, elements of the organization are then said to 'run like clockwork' so long as people operate as 'cogs in the machine' and do not 'throw a spanner in the works'.

When thinking or communicating about organization(s), the use of metaphors may be more or less explicit. Each metaphor provides some illumination of organization(s). But their use can also be restrictive – in the sense that they limit as well as enable us to make sense of our world. They can be helpful, but they may also be misleading.

An appreciation of the role of metaphors in making sense of organizations and acting within enables a better appreciation of how our understanding and behaviour is governed by taken-for-granted images and metaphors. An awareness of the extent to which we are confined by our use of just a few metaphors may, in turn, invite consideration of alternative metaphors which offer different ways of thinking and acting.

Advocates of the use of metaphors contend that adopting just one or two metaphors is restrictive and inflexible. They suggest that it is important to be familiar with, and open to an adoption of, numerous perspectives. Appreciating a range of metaphors can be valuable when diagnosing problems and identifying alternative means of improving organizations. Addressing organizations and their problems from multiple metaphorical perspectives, it is argued, is more consistent with dealing with complexity rather than trivializing or simplifying it.

The following metaphors of organization are identified and explored in Morgan's *Images of Organization*:

- Organizations as Machines. The machine metaphor dominates modern management thinking and is strongly associated with bureaucratic forms of work, whether in the office or on the shopfloor. Attention is framed in terms of concerns about standardization, measurement and control.
- Organizations as Organism. The organismic metaphor emphasizes natural adaptation and environmental relations, internally and externally. Attention is framed in terms of concerns about living systems, adaptation, evolution and health.
- Organizations as Brain. When using the organizations as information processors metaphor, attention is framed in terms of learning, parallel information processing, mindsets and feedback.
- Organization as Culture. When the culture metaphor is deployed, attention to organization is framed in terms of concerns about values, ideology, rituals and vision.
- Organizations as Political. When conceived as political, attention is framed in terms of power, interests, alliances and conflict management.
- Organizations as Psychic Prisons. When the psychic prison metaphor is deployed, people seem to be trapped by others' perspectives and agendas. This metaphor frames attention in terms of concerns about unconscious processes, repression, defence mechanisms and projection.
- Organizations as Flux and Transformation. Using this metaphor, attention is framed in terms of concerns about complexity, self-organization, emergent properties and paradox.
- Organizations as Instruments of Domination. When conceived as instruments of domination, emphasis is placed on the imposition of the will of one group upon others. Attention is framed in terms of concerns about alienation, discrimination, imposing and exploitation.

Morgan's *Images of Organizations* is very helpful in reminding us that our knowledge is always partial and perspectival. We never 'see' what 'is'. Instead, we apprehend 'it' within a particular frame of reference in which a frame-specific metaphor tends to dominate. Morgan's emphasis upon the importance of metaphors helpfully recalls the existence of numerous, counterveiling ways of understanding organization(s) and the behaviour within them. In this text, the Counterpoint feature is intended to refresh and stimulate this awareness.

Source: Gareth Morgan (1986/2006), *Images of Organization,* Sage. For a good summary of the eight metaphors, see www.systems-thinking.ca/myfiles/GarethMorgan.pdf

How we approach and work in organizations will depend upon how we make sense of them. If the organization already exists, then it contains a legacy of the earlier sense-making involved in establishing it and developing it. Managers and employees acquire and apply different ways of making sense of organization(s) – that is, different perspectives for designing them and interpreting what goes on in them. Their perspective may be narrow or broad, rigid or flexible, singular or multiple, static or dynamic. They are important because they enable us to build and navigate the world of organizations. Perspectives may be shared or divergent – producing harmony or discord, a capacity to contemplate alternatives that allow for change and adaptation, or a view that 'there is no alternative'. For these reasons, it is relevant to consider the existence of different perspectives on organizations and to appreciate how, over time, different perspectives become embedded or subjected to questioning and replacement.

Purpose of this Chapter

In this chapter, the scope and nature of organization theory are discussed more fully. Succeeding sections examine the structural and contextual dimensions of organization design, the history of organization theory, the development of new organizational forms in response to change and how organization theory can be helpful in managing organizations in a period of massive challenges associated with rapid changes. There are various ways of thinking about organizations. Two important perspectives are the open systems approach and the organizational-configuration framework.

From Closed to Open Systems

A significant development in the study of organizations is the distinction between a closed and an open systems perspective.[1] A **closed systems** perspective focuses exclusively upon the organization. Minimal consideration is given to its dependencies upon, or capacities to influence, elements that lie beyond it ('the environment'). From a closed systems perspective, organizations are conceived as self-contained, effectively sealed off from the outside world. Early management philosophies tended to be closed system in approach. Taking the wider context as a given, it was assumed that the organization could be made more effective through internal design. Managerial attention is then appropriately focused upon how to refine existing structures in order to address increases in scale, for example, rather than adapting them to a changing situation.

Open systems thinking pays attention to the (open) boundary between the organization and its context. Developing a design that effectively manages the exchanges – of raw materials, people, products, etc. – across this boundary is, in an open systems perspective, key to survival and prosperity (see Counterpoint 2.1). Organizations are conceived as consumers of resources (inputs, such as raw materials) and exporters of resources (outputs, such as services). In order to survive and prosper they are impelled, according to an open systems perspective, to adapt to, or attempt to control, a changing environment. It is necessary to find and obtain needed resources, interpret and act on environmental change, dispose of outputs and control, and coordinate internal activities in the face of environmental disturbances and uncertainty. In organizations, it can happen – surprisingly easily – that particular divisions, departments and especially top managers forget that they are part of an open system. They may, for example, isolate themselves within a self-referential culture – a 'bubble' – as they fail to pay attention to what is going on with their employees, customers, suppliers and competitors. It would seem that in our example in the first chapter, Philips suffered through a lack of attention to environmental changes in addition to weak responsiveness to new product opportunities. The relevance of open systems thinking and design has been underscored in recent years with regard to changes relating to the explosion of the internet and e-business; growing diversity of the workforce; and the opening up of low wage labour economies, such as China and India, and the participation of even newer (and lower-cost) entrants in the global economy like Vietnam and Bangladesh.

COUNTERPOINT 2.1

Open systems thinking is helpful in reminding us of the interdependencies both between subsystems (e.g. 'production' and 'maintenance') as well as between the organization and what exists beyond its boundaries.

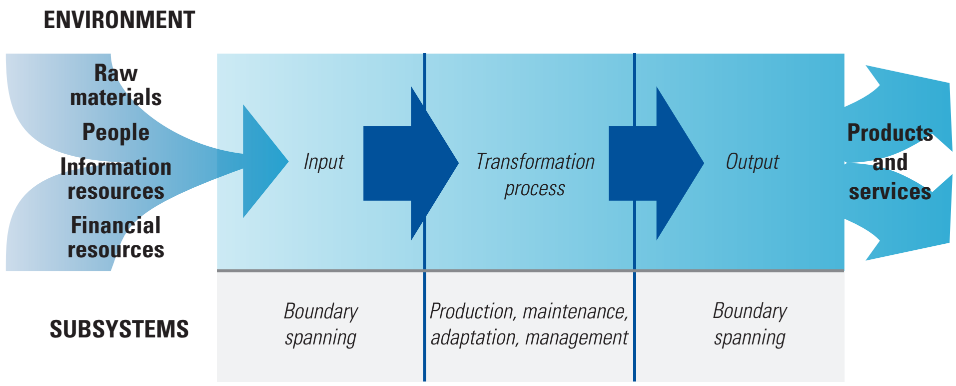
A major limitation of this thinking is that it presents an excessively neat picture of how organizations operate and relate to elements of their environment. It is worth recalling that organizations comprise people who are not necessarily willing to be compliant tools of systems. Neither are the designers of these systems necessarily able to make employees operate according to apparently rational specifications.

In practice, organizing, like politics, is 'the art of the possible' based upon available capacities and capabilities, and always at the mercy of 'events'. How people 'fulfil' the 'needs' attributed to subsystems will inevitably depend upon their **own values, priorities and preconceptions**. If a set of subsystems were designed that perfectly met the 'needs' of their system, this would be achieved only by transforming employees into automatons – that is, perfectly formed cogs in a smooth-running machine. That is perhaps the ambition of designs based upon systems thinking, but its failure to deal with the practicalities of organizing means that it is unrealized except in the most regimented and oppressive of corporations. And where it is nearly realized, it can be counterproductive as automatons are usually better at following procedures than responding creatively to unexpected events.

Exhibit 2.1 illustrates an open system. Inputs to an organization system include employees, raw materials and other physical resources, information and financial resources. The transformation process changes these inputs into something of value that can be exported back to the environment. Outputs include specific products and services for customers and clients. Outputs may also include employee satisfaction, pollution and other by-products of the transformation process.

In systems thinking, each system is understood to comprise several **subsystems**, as illustrated at the bottom of Exhibit 2.1. These subsystems are identified in relation to the specific functions they are conceived to perform for organizational survival – such as production, boundary spanning, maintenance, adaptation and management. In a systems perspective, the production subsystem is understood to produce the product and service outputs of the organization. Boundary subsystems are deemed responsible for enabling exchanges with the external environment. They include activities such as purchasing supplies or marketing products. Maintaining the smooth operation and upkeep of the organization's physical and human elements is understood to be performed by the maintenance subsystem. The adaptive subsystems are said to be responsible for organizational change and adaptation. Management is a distinct subsystem, responsible for coordinating and directing the other subsystems of the organization (see Counterpoint 2.1).

EXHIBIT 2.1 An Open System and its Subsystems



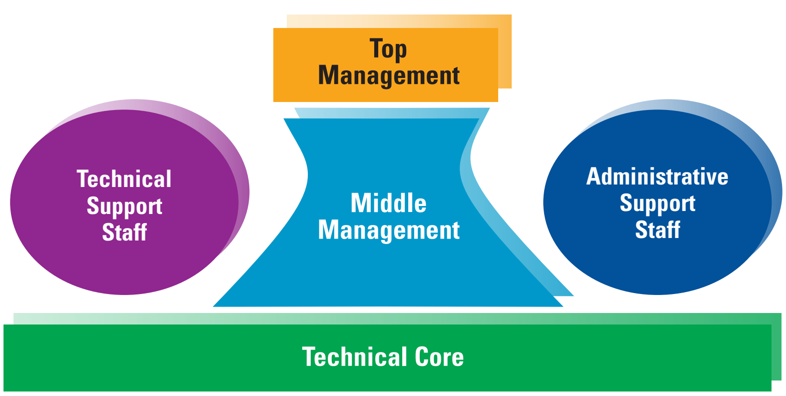
Organizational Configuration

Systems thinking conceives of different parts of an organization being designed to perform the key subsystem functions as illustrated in Exhibit 2.1. As there are limitations with this thinking (see later in Counterpoint 2.3), it is necessary to keep these firmly in mind when adopting an approach that is reliant upon it. One configuration framework proposed by Henry Mintzberg suggests that every organization has five parts.[2] These parts, illustrated in Exhibit 2.2, include the technical core, top management, middle management, technical support and administrative support. The five parts may vary in size and importance depending on an organization's particular environment, its technology and other factors.

ONLINE BRIEF 2.1

Technical Core The technical core includes diverse support staff who do the basic work of the organization. It performs the production subsystem function and produces the product and service outputs of the organization. This is where the primary transformation from inputs to outputs takes place. The technical core is the production department in a manufacturing firm, the teachers and classes in a university and the medical activities in a hospital. This core is complemented by other parts that provide technical and administrative support.

EXHIBIT 2.2 Five Basic Parts of an Organization



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.

Technical Support Technical support employees, such as engineers and researchers, scan the environment for problems, opportunities and technological developments. Technical support is responsible for creating innovations in the technical core, helping the organization change and adapt. Technical support includes departments such as technology, research and development (R&D) and marketing research.

Administrative Support The administrative support function is responsible for the smooth operation and upkeep of the organization, including its physical and human elements. This includes human resource activities such as recruiting and hiring, establishing compensation and benefits, and employee training and development, as well as maintenance activities such as cleaning of buildings and service and repair of machines. Administrative support functions include the human resource department and maintenance staff.

ONLINE COUNTERPOINT 2.1

Management – Top and Middle Management is a function responsible for directing and coordinating other parts of the organization. Top management provides direction, strategy, goals and policies for the entire organization or major divisions. Middle management is responsible for implementation and coordination at the departmental level. In traditional organizations, middle managers are responsible for mediating between top management and the technical core, such as implementing rules and passing information up and down the hierarchy.

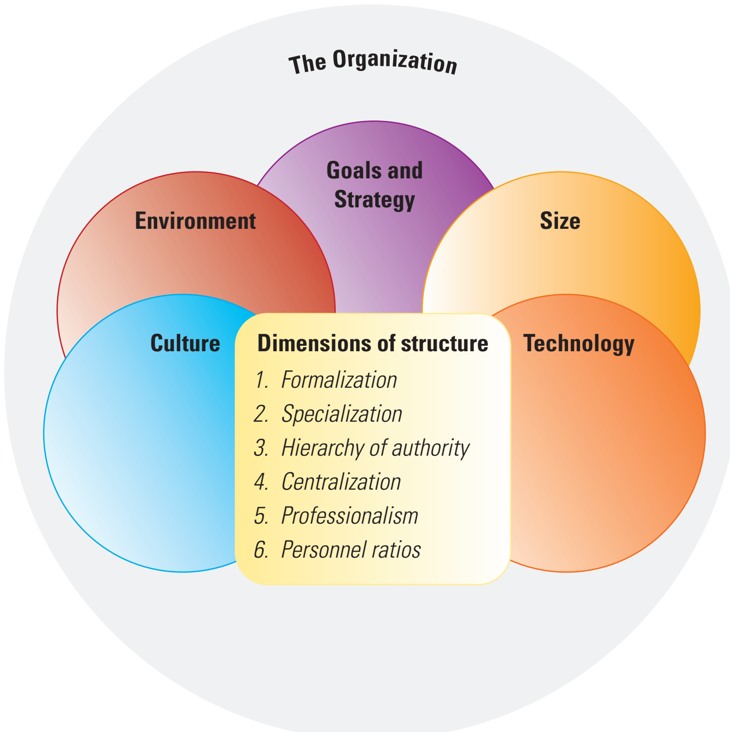
In real-life organizations, the five parts are not readily distinguishable and they may serve more than one subsystem function. For example, managers coordinate and direct other parts of the system, but they may also be involved in administrative and technical support. In addition, several of the parts are involved in the *boundary spanning* function mentioned in the previous section. For example, in the administrative support realm, human resource departments are responsible for interacting with external as well as internal labour markets to find quality employees; and members of R&D departments work directly with outside organizations to learn about new technological developments. With increasing pressures to deliver short-term shareholder value, there has been a preoccupation with cutting costs by off-shoring, outsourcing and generally hollowing out organizations so that the middle strata in Mintzberg's schema is shrunk and the 'technical core' is limited to activities that are assessed to be 'core'. An even more revolutionary change may be underway in conjunction with the emergence of the digital organization. Control functions that were previously the role of middle and lower level managers are increasingly achieved through digital processes, real-time task allocation and measurement of productivity; MTR, the Hong Kong subways system operator that carried over 5 million customers a day during 2018, schedules services and plans safety-critical maintenance tasks using artificial intelligence.[3,4]

Dimensions of Organization Design

The systems view pertains to dynamic, ongoing activities within organizations. The next step to understanding organizations is to look at dimensions that describe specific organizational design traits.

Organizational dimensions can be categorized in two types: structural and contextual, illustrated in Exhibit 2.3. **Structural dimensions** provide labels to distinguish some key, internal characteristics of an organization, such as the degree of formalization. They provide a basis for comparing the composition of organizations. **Contextual dimensions** characterize both the organization as a whole, including its size, technology, etc. and the broader organizational setting. To understand and evaluate organizations, it is important to examine both structural and contextual dimensions.[5] These dimensions of organization design interact with one another and can be adjusted to accomplish the purposes listed earlier in Exhibit 2.1.

EXHIBIT 2.3 Interacting Contextual and Structural Dimensions of Organization Design



Structural Dimensions

ONLINE BRIEF 2.2

1 *Formalization* refers to the reliance upon written documentation in the organization. Such documentation relates to procedures, job descriptions, regulations and policy manuals. Larger organizations tend to score high on formalization because they have written rules to authorize and control a wide range of activity. A small, family-owned business, in contrast, may have almost no written rules and would be considered 'informal' even if the personal control exercised by its head is rigid and all-encompassing.

2 *Specialization* is the degree to which organizational tasks are subdivided into separate jobs. If specialization is extensive, each employee performs only a narrow range of tasks. High levels of specialization are found on production lines, where each worker is expected to become highly adept at repeatedly performing a narrow set of skills. Likewise, the division of labour among managers may be highly specialized.

3 *Hierarchy of authority* describes who reports to whom and the span of control for each manager. The hierarchy is related to span of control (the number of employees reporting to a supervisor). When spans of control are narrow, specialization is high and the hierarchy tends to be tall. When spans of control are wide, the hierarchy of authority will be shorter.

4 *Centralization* refers to the hierarchical level that has authority to make a decision. When decision-making is kept at the top level, the organization is centralized. When decisions are delegated to lower organizational levels, it is decentralized. Organizational decisions that might be centralized at head office or decentralized to a particular division or operating unit may include the purchasing of certain types of equipment or the hiring of particular grades of employee.

5 *Professionalism* is the term used to describe the level of formal education and training of employees. Professionalism is considered high when employees require long periods of training to hold jobs in the organization. The average number of years of education of employees is one measure of professionalism, which could be as high as 20 in a medical practice and less than 10 in a construction company in a country with fewer years of mandatory schooling.

6 *Personnel ratios* refer to the deployment of people to various functions and departments. Personnel ratios include the administrative ratio, the clerical ratio, the professional staff ratio and the ratio of indirect to direct labour employees. A personnel ratio is measured by dividing the number of employees in a classification by the total number of organizational employees.

Contextual Dimensions

1 *Size* can be measured for the organization as a whole or for specific components, such as a plant or division. As organizations are social systems, size is typically measured by the number of employees. Other measures such as total sales or total assets also reflect magnitude, but they do not indicate the size of the human part of the system.

2 *Organizational technology* refers to the tools, techniques and actions used to transform inputs into outputs. It concerns how the organization actually produces the products and services it provides for customers and includes such things as flexible manufacturing, advanced information systems and the internet. An automobile assembly line, a college classroom and an overnight package delivery system are technologies, although they differ from one another.

3 The *environment* includes all elements outside the boundary of the organization. Key elements include the industry, government, customers, suppliers and the financial community. The environmental elements that affect an organization the most are often other organizations.

4 The organization's *goals and strategy* define the purpose and competitive techniques that set it apart from other organizations. Goals are often written down as an enduring statement of company intent (which should not be confused with actual practice). A strategy is the plan of action that describes resource allocation and activities for dealing with the environment and for reaching the organization's 'goals'. Goals and strategies notionally define the scope of operations and the relationship with employees, customers and competitors.

5 An organization's *culture* is the underlying set of key values, beliefs, understandings and norms shared by employees. These underlying values may pertain to ethical behaviour, commitment to employees, efficiency or customer service, and they provide the glue to hold organization members together. An organization's culture is unwritten but can be observed in its stories, slogans, ceremonies, dress and office layout.

The contextual and structural dimensions discussed above are understood to interact with, and to influence, each other. For example, large organization size, a routine technology and a stable environment all tend to be associated with organizations that have greater formalization, specialization and centralization. More detailed relationships between the dimensions are explored in later chapters of this book.

These dimensions also provide a basis for measurement and analysis of organizational characteristics. Consider, for example, the dimensions of W. L. Gore & Associates compared with those of European supermarket chain Carrefour and NGOs.

IN PRACTICE

W. L. Gore & Associates

When Jack Dougherty began work at W. L. Gore & Associates, Inc., he reported to Bill Gore, the company's founder, to receive his first assignment. Gore told him, 'Why don't you find something you'd like to do'. Dougherty was shocked at the informality but quickly recovered and began interrogating various managers about their activities. He was attracted to a new product called Gore-Tex, a membrane that was waterproof but breathable when bonded to fabric. The next morning, he came to work dressed in jeans and began helping feed fabric into the maw of a large laminator. Five years later, Dougherty was responsible for marketing and advertising in the fabrics group.

Bill Gore died in 1986, but the organization he designed still runs in the same informal way as before. One of the key tenets of the organization is that employees (called associates) figure out what they want to do and where they think they can make a contribution. Instead of bosses, associates can choose to work with 'leaders' who emerge organically in the process of addressing work's regular challenges. In 2018, the company had around 9500 associates in 45 locations around the world. The plants are kept small – up to 200 people – to maintain a family atmosphere. 'It's much better to use friendship and love than slavery and whips', Bill Gore said. Several professional associates are assigned to act as 'sponsors' for new product development, but the administrative structure is lean. Good human relations is a more important value than internal efficiency. The company has seven times been named one of *Fortune* magazine's '100 Best Companies to Work For in America'. In 2009 it was listed 12th on the '50 Best Large Workplaces in Europe' list, and in 2012, in the top ten workplaces in the world named by the Great Place to Work Institute. The company was featured in Malcolm Gladwell's famous book *The Tipping Point*, to illustrate how small sized plants and mutual familiarity make for positive and efficient working teams. It has also been featured in Frederick Laloux's 2014 book, *Reinventing Organizations*, as a 'teal' organization: one that fosters its members' abilities to self-manage and self-organize.[6] Gore continues to grow and prosper.[7] Like Philips, featured in Chapter 1, Gore has increasingly focused its attention on healthcare uses for its products, such as the use of its breathable mesh in repairing damaged human organs. In 2018 the company had over $3 billion in revenues.[8] (see Counterpoint 2.2).

Carrefour

Carrefour is one of the giants in today's global retailing. In 1963, Carrefour pioneered the concept of the *hypermarché*, or hypermarket in English, a concept bringing together the traditional food-based supermarket with the full-range department store, carrying items from clothes to house paint to computers: 'everything under the same roof'. The company, based in France but by 2017 operating in 30 different national markets from China to Argentina, is the world's second largest by retail sales after Walmart, with over 12,300 stores worldwide, and 370,000 employees, on four continents. Although in some markets Carrefour operates a number of other chains, ranging from convenience stores to cash and carry warehouses, these operations are driven by the supply and distribution systems established for the hypermarket operations. Its hypermarkets all contain the same product mix of about 60 per cent food and 40 per cent non-food, with the specific products sold tailored, of course, to national tastes. Where Carrefour has expanded through purchasing existing chains, such as Spain's Continente chain, it has usually moved quickly to rebrand the purchased properties with the name, logo, and 'look and feel' of the Carrefour group.

Carrefour's success has been built on following its basic model quite rigidly across national markets. The company's managers are drawn from all its operating countries, but management training places a strong emphasis on creating common corporate values and understanding amongst both managers and shop-floor employees, enabling it to avoid some of the differing visions that so hampered Philips, discussed in the previous chapter.[9]

Nevertheless, Carrefour has not been immune to the digital revolution and in particular competition from online retailers such as Amazon. In 2018 the company launched its vision 2022 strategic plan, with key priorities: organizational simplification with focus on core business, an 'omnichannel' approach to integrating e-commerce with its traditional store focus, and increased emphasis on internet sales of both food and non-food products.[10]

Not-for-Profit Organizations and Charities

Many nonprofit organizations (NGOs) rely heavily on public and other external funding. NGOs in the arts sector, for example, can rarely earn enough money from ticket sales to cover even their expenses, despite having a small staff complement who are typically poorly paid, overwhelmed with rules and regulations (usually imposed by the external funders) and swamped by paperwork. Chronically understaffed organizations are caught in a perpetual cycle of justifying funding to outside granting agencies. Being typically very small, they have very little power to assert themselves over their environments. For example, they usually receive support in small amounts from a number of different funders, each of which has different reporting expectations. This is an extremely inefficient way of doing business (and a waste of the funders' money and the arts organizations' energies). Further, government often dictates particular artistic priorities (such as for example, the insistence of the Government of Wales, UK, that funded arts activities must be targeted to 'disadvantaged' people) even though government officials may have very little practical understanding of the artistic field and even less idea about how 'impact' might be measured.

However, even though almost all small arts NGOs are in the same situation, faced with unreasonable or impossible demands, they are also in competition with each other for very limited funds, and it is notoriously difficult for them to band together and demand a more coherent approach on the part of the funders.

Small NGOs such as those in the arts sector can still impact their environments through a variety of strategies. They can attempt to broaden their funding base so that they are not so dependent on government grants; most have done this in recent years by seeking out corporate sponsorship, expanding the range of revenue-generating activities (for example, some arts organizations, such as the Manchester-based Act on Info have begun offering team-building workshops for companies based on producing a 'play-in-a-day'), and operating cafes and restaurants from their facilities.

An alternative strategy has been to set aside competitive rivalries and work with other arts organizations. This can take various forms. It can involve, for example, sharing services and space, as has occurred in Birmingham, UK. This involves working with 'Organizational Technology' as described in the Contextual Dimensions of Organization Design in this chapter.

On a more 'political' level it can involve acting collectively to challenge unfair and unreasonable government policies. When the government-appointed Arts Council of Wales decided to carry out an 'Investment Portfolio Review' in 2010/2011, it essentially decided to force all Welsh arts organizations to compete with each other for a smaller pot of money, with criteria determined on the basis of political priorities established by the Welsh government. Thirty-two organizations were slated to lose their funding altogether, putting the future of most in jeopardy. Whether coincidentally or not, the result of the initial review was that funding became more concentrated in areas from which the political party in power drew most of its support, on the grounds that these were of 'greatest need', while the Arts Council's own bureaucracy was not assessed and downsized as part of the review. Arts organizations worked together, with local governments and politicians, to pressure the Arts Council to reconsider. Although the bulk of the funding cuts were upheld, several were reversed, and alternative funding identified for many organizations. Most importantly, the transparency and accountability of the funding process came under unprecedented scrutiny, and subsequent funding processes and decisions have become more consultative and collegial. This is an example of even very small organizations finding ways both to adapt to, and sometimes to change, their environments in order to improve their performance and chances of survival.[11]

COUNTERPOINT 2.2

W. L. Gore[12] is probably one of the most celebrated 'good guys' in corporate history (See *In Practice*, above). Not only does the company treat its employees very well in comparison to most international firms, its product line is synonymous with quality and healthy living. In addition, the breathable membrane which forms the basis of the company's waterproof clothing is increasingly being used in cutting-edge healthcare applications, giving the company's products a further positive gloss.

However, Gore has come under increasing criticism for its business practices, especially what is claimed are its efforts to hamper competition. Due to its dominant position in the market for waterproof clothing, competitor companies often find it difficult to secure investment to develop their own products. That is part of business life, but some competitors claim that Gore goes further, demanding that companies it contracts to produce the garments sign exclusivity deals with the company. Also, some clothing brands that use Gore-Tex cloth in their garments have complained that they too are put under pressure not to use any competitive products, at the risk of losing the ability to use any Gore-Tex cloth in their garments. A Columbia Sportswear spokesman said, 'This is the worst kept secret in our industry. Our brands have experienced the exclusionary conduct directly, but we also have numerous written communications from other brands and manufacturers that they believe Gore dictates what waterproof breathable technologies they are allowed to offer to consumers.'

Gore strongly denies the claims: 'The waterproof, breathable category is highly competitive with a number of membranes available', a spokesman said. 'Gore's business practices do not foreclose competitors from selling products.' However, both the European Commission and the US Federal Trade Commission take the issues seriously. Both have launched anti-trust probes.

The criticism of Gore – whether ultimately proven justified or not – underlines a number of issues. First, even for major market players, the external environment is difficult to control; in fact, it can often be unlawful to try to control it. Second, companies need to be very careful to ensure that organizational culture is reflected not only in how people treat each other within the company but also the company's external relationships with suppliers, retailers, etc. Finally, the most difficult position to hold is at the top – all other actors are monitoring your every move, whether to ensure that it is lawful, or to identify a weakness or mistake that can be exploited!

EXHIBIT 2.4 Characteristics of Three Organizations

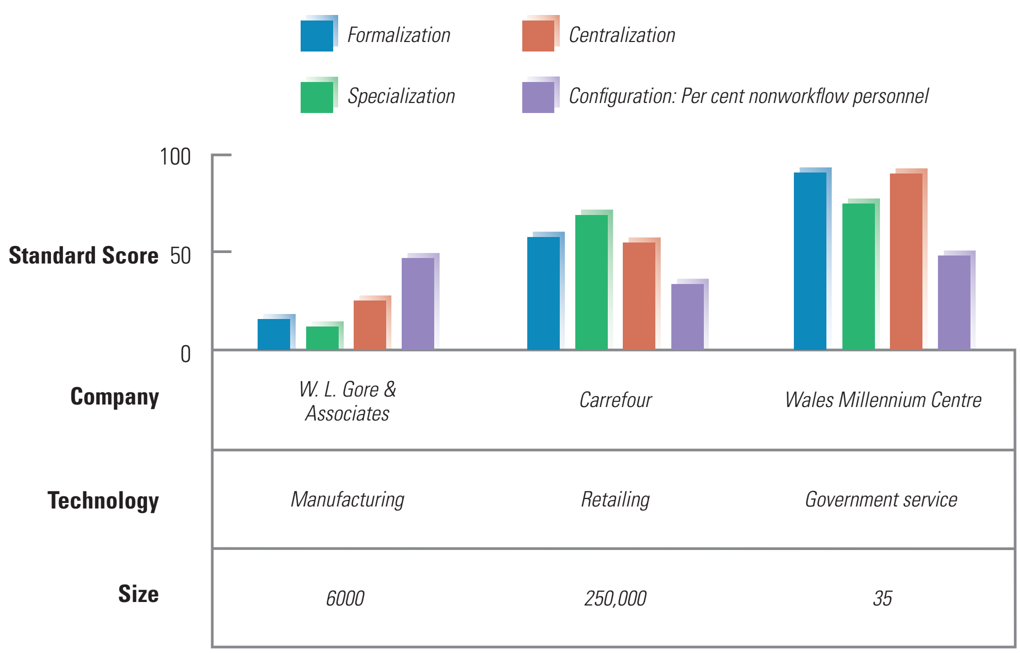


Exhibit 2.4 provides a pictorial illustration of a number of the structural and contextual dimensions of Gore & Associates, Carrefour and the Wales Millennium Centre, a nonprofit UK regional arts centre. Gore & Associates, a medium-sized manufacturing organization, ranks low with respect to formalization, specialization and centralization. A number of professional staff are assigned to nonworkflow activities to do the R&D needed to stay abreast of changes in the

fibre industry. Carrefour is much more formalized, specialized and centralized. Cost-cutting to protect market share and increase profitability are of key importance and this is accomplished through standardization and economies of scale: 'growing market share can only be achieved on a consistent basis, if we are always locally the price leader'. The percentage of nonworkflow personnel is kept to a minimum. The structure of the Wales Millennium Centre, in contrast to the other organizations, reflects its dependent status within the nonprofit sector. The organization has to comply with many rules and procedures and different stakeholder demands that are imposed upon it. Most employees are assigned to workflow activities, although a substantial amount of staff time is consumed in providing administration and clerical support.

Performance and Effectiveness Outcomes

ONLINE BRIEF 2.3

For many analysts and designers of organizations the only purpose in analyzing varying perspectives on the structural and contextual dimensions of organizations is to create and develop the organization in such a way as to achieve high performance and effectiveness (see Counterpoint 2.3). It would, of course, be difficult to justify the resources devoted to organizations if the purpose or outcome were low performance and ineffectiveness. In principle, managers are hired to adjust structural and contextual dimensions and organizational subsystems to most efficiently and effectively transform inputs into outputs and provide value. **Efficiency** refers to the amount of resources used to achieve the organization's goals. It is based on the quantity of raw materials, money and employees necessary to produce a given level of output. **Effectiveness** is a broader term, meaning the degree to which an organization achieves its goals. However, the pursuit of high performance and effectiveness can compromise or undermine what makes it possible – such as morale and cooperation. In any event, it is questionable whether slavish pursuit of such objectives is consistent with human flourishing or sustainability.

COUNTERPOINT 2.3

When reference is made to such things as 'high performance and effectiveness', it is worth asking: effective for whom and performance in relation to what criteria? Concerns with ethics and social responsibility suggest that companies have responsibilities that cannot be equated with increasing the returns to their shareholders.

Other performance measures are also important and may ultimately affect their very survival – such as the impact of corporations upon the natural environment, their contribution to improving the quality of life nationally and internationally, and the legitimacy that they enjoy among the general public upon whom corporations ultimately depend – as employees and consumers.

It is likely that companies will come under increased regulatory and public pressure to broaden their criteria of performance and effectiveness. For example, it may be asked how well they are performing in producing goods and services that are ecologically enhancing and sustainable rather than destructive and degrading, or how they are performing in returning the wealth generated by companies to the communities from where their resources – material and social – are drawn.

ONLINE COUNTERPOINT 2.2

Whatever the objective ascribed to an organization, it is relevant to take care in working out how it is going to be achieved. A clear, consensually determined objective accompanied by clear, focused goals and appropriate strategies for their attainment, are commonsensically desirable elements of successful design. Strategy, goals and approaches to measuring effectiveness will be discussed in detail in Chapter 3. However, as we have already noted, achieving effectiveness is rarely a simple matter because different people want different things. For customers, the primary concern is high-quality products and services at a reasonable price, whereas employees are mostly concerned with adequate pay, good working conditions, promotion prospects and job satisfaction. Managers are faced with competing demands when setting goals and striving for effectiveness. The idea of balancing the preferences of different groups has been characterized as a **stakeholder approach**. Its claim is to integrate diverse organizational activities by taking account of the various organizational stakeholders and considering what they want from the organization. A **stakeholder** is any group within or outside of the organization that has a stake in the organization. The satisfaction level of each group can be assessed as an indication of the organization's performance and effectiveness.[13]

Exhibit 2.5 illustrates various stakeholders and indicates what each group may want from the organization. Organizations frequently struggle to satisfy the demands of all groups. A business might have high customer satisfaction, but the organization might have difficulties with creditors, or supplier relationships might be poor. Consider the US-headquartered retail chain Walmart. Customers love its efficiency and low prices, but the low-cost emphasis the company uses with suppliers and in relation to employees has caused friction. Some activist groups argue that Walmart's tactics are unethical because they force suppliers to lay off workers, close factories and outsource to manufacturers from low-wage countries operating facilities with poor working conditions. One supplier has said clothing is being sold at Walmart so cheaply that suppliers from developed countries in Europe and North America couldn't compete even if they paid their workers nothing! The challenges of managing such a huge organization have also led to strains in relationships with employees and other stakeholder groups, as evidenced by recent gender discrimination suits and complaints about low wages.[14] And then there are other groups affected by company actions – such as communities from where the raw materials used in products sold by Walmart are sourced – that do not even appear in Exhibit 2.5.

Stakeholder interests often conflict. In nonprofit organizations, the priorities of clients sometimes conflict with restrictions on use of government funds or contributions from donors. In companies, there is conflict when unions campaign for improved conditions or wage increases that might hurt shareholders' financial returns or prompt a switch to lower-cost suppliers.

EXHIBIT 2.5 Major Stakeholder Groups and What They Expect

Demands made by stakeholders other than shareholders and senior executives are likely to meet resistance unless they can be reconciled with increased financial returns – for example, by tying in wage increases to productivity gains or improving reliability from suppliers in return for better treatment. In reality, it is unreasonable to assume that all stakeholders can be equally satisfied or even equally treated. However, if an organization fails to manage the expectations and/or meet the demands of stakeholder groups, it is likely risking its longer-term survival – by becoming a takeover target or simply going out of business – as well as failing to live up to its claims to care for its employees and customers as well as its stockholders. Research has shown that the assessment of multiple stakeholder groups is a strong indicator of organizational effectiveness, especially with respect to organizational adaptability.[15] As profit and nonprofit organizations are generally (but not universally) concerned about their reputations among customers, creditors and regulators, they also put considerable resources into shaping and controlling the part of the environment comprising stakeholders' perceptions of their performance.[16]

Failure to attend to stakeholders – or, at least, the more powerful ones – invites disruption and loss of reputation which is likely to prove damaging. Satisfying multiple stakeholders can be challenging, particularly as goals and priorities change.

Conflict and Compromise in the Forest Products Industry

The forest products industry literally underpins part of the homes we live in, especially if our houses are of wood frame construction as in much of Europe and North America. Even if they have an outer shell of brick or concrete, much of the internal framing and finishing is likely to be wood-based. Despite the growth of electronic media, most of us still access much of our information by picking up books and newspapers, again produced from wood pulp. At the same time, many of us are shocked by visions of some of the world's great forests being logged, whether teak from the Burmese rain forest, or old growth cedar trees in British Columbia, on Canada's west coast. Wood and wood products are a crucial part of our daily lives.

Nowhere are the debates about the forest industry more heated, or the stakes higher, than in Canada. The forest industry is a major job creator in the country, accounting for more than 300,000 jobs directly and 600,000 indirectly. The industry is worth 3 per cent of Canada's GDP annually, and whole communities are entirely dependent on forestry.[17] In 2008 the town of Mackenzie in northern British Columbia faced complete closure when forest products giant, Abitibi Bowater, indefinitely closed the community's two saw mills and a pulp mill.[18]

At the same time, Canada is home not merely to vast expanses of pristine wilderness, but also one of the world's most active and sometimes militant environmental movements. Greenpeace, the world's best known environmental group, was founded in Canada. During the 1990s, proposals to log old growth forest in Clayoquot Sound in British Columbia led to the largest campaign of civil disobedience in Canadian history, with over 800 environmentalists arrested.[19] In addition to the conflicting perspectives of forest industry companies and workers and environmentalists, much of the country's usable timber is located on lands claimed by the country's indigenous peoples, who tend to share environmentalists' concerns about damage to their homelands, while also wanting to ensure that any development benefits their populations which are easily the poorest in Canada's generally affluent society.[20] Canada's forest products industry, therefore, is working in an extraordinarily complex environment.

After the great conflicts over Clayoquot Sound, some of Canada's more forward looking forest companies decided on a different approach from simply relying on property rights and contract enforcement through the courts. In the late 1990s, MacMillan Bloedel (MacBlo), now part of Weyerhauser, had been running into financial difficulties, caused by decline in Asian markets due to the 'Asian flu' economic downturn, a softwood lumber trade dispute with the US, and difficulty selling to Europe because of environmentalists' pressure on European buyers to guarantee that all their wood came from sustainable sources. In 1997 MacBlo's new CEO, Tom Stephens, decided that the only way he would be able to provide value to his shareholders would be if he adopted a stakeholder approach. Stephens charged his managers to come up with a strategy that would respond to concerns about sustainability by moving to selective logging, reducing the impact of logging on forest land biodiversity, and signing up to the sustainable forestry certification scheme run by the Forest Stewardship Council (FSC). He developed long-term dialogue and partnerships with environmental groups, effectively widening the company's sphere of accountability to include both environmental groups and First Nations communities, as well as its workforce.[21]

Tom Stephens' approach turned out to be the only game in town. Since 2000, the area of forest land certified as managing sustainably has risen tenfold, and major retailers in Europe and North America from B&Q to Hallmark Cards have committed to use wood products sourced exclusively or almost exclusively from independently certified sources like FSC.[22] Although frictions continue between environmental organizations and the forest products industry, these are increasingly seen on both sides as part of the process of negotiating compromises that will allow forest companies to contribute to the economy while helping to protect the planet for future generations.

The next major challenge will be ensuring that sustainable practices become the norm across the world, and not merely in the wealthiest countries. In fact, with globalization, if sustainable practices are not implemented globally, damage to the environment in the West is simply going to be replaced by damage to the environment in emerging economies. In the forest stewardship sector, the FSC is supporting some positive practices, although too much logging in developing countries remains unregulated and unsustainable.

One positive example is in Madagascar, where the FSC's certification contractor GFA Consulting Group worked with an ambitious local forestry company, VIMA Wood Industry, to help the company secure FSC certification. Two key aspects of the certification process were assuring that the cutting cycle was sustainable while also delivering the different types of wood needed in the local and international market (including wood for charcoal, pallets, as well as finished lumber for building), and ensuring that work was created for local employees. This latter is an important aspect of FSC certification because unless sustainable practices benefit local communities, illegal and unsustainable logging will be inevitable as local populations are desperate for income. 'We are creating employment for indigenous populations, notably in the security of the forest from illegal cutting, but also in maintaining the forest. We are recruiting forest wardens continuously', said company spokesperson, Fanjavola Beboarimisa. The company is planning to invest in further mechanization to increase the efficiency of production.[23]

A broader issue to address is rogue logging that often occurs in countries that are poorly governed and prone to corruption. The greater the proportion of timber that is cut illegally, the harder it is economically for FSC compliant companies to thrive.

The Evolution of Organization Theory and Design

Organization theory is not a collection of facts or an operation manual; it is a way of thinking about, and informing action within, organizations. 'Facts' are, in this sense, contingent upon the particular kind of thinking that goes into specific theories of organization. Different theories of organization – for example, closed systems theories and open systems theories – provide alternative ways to represent and analyze organizations. Each theory makes its own claims about the accuracy and depths of its analysis relative to commonsense views or alternative theories. Drawing upon different theories, organization scholars point to, or suggest the relevance of, diverse features, patterns and regularities which they make available to the rest of us. For this reason, the specific 'facts' generated from the research are not, in practice, as important as the general patterns and insights into the realities of organizing and organizations.