**Chapter-1**

**THE NATURE OF ORGANIZATIONS**

**Concept of Organization**

Organization is an association of two or more individuals working together co-ordinatingly to achieve a common goal. In other word, an organization is a collection of people working together in a division of labor to achieve a common purpose.

Conclusively, people form an organization on the basis of their common goals, to make division of works on the basis of efficiency, to delegate the authority and responsibility, to maintain communication among them and to coordinate the activities among all the members.

“Organization is a systematic arrangement of people brought together to accomplish some specific purpose.” \_ **Decenzo and Robbins**

***Characteristics of Organization***

1. **Collection of people**: The concept of organization comes into existence when to more people come together to accomplish a definite goal. Therefore, organization is a human association in which, people interact with each other to produce a synergic effect and develop a network to communicate information and to maintain unity in work.
2. **Common goal**: The basis of an organization is a specific goal and it serves as a reason of its existence. All the activities of involved members, concentrate on the fulfillment of common goal.
3. **Division of work**: The total work is a divided into small units on the basis of their nature in an organization. Each work is assigned to different individuals according to their skills, abilities and experiences.
4. **Coordination**: Coordination is the process that integrates the function of different units of an organization; there should be good coordination among the departments and members through executive leadership.
5. **Hierarchy of authority**: Organization consists of a formal structure in which hierarchy of authority of each member is clearly defined. The hierarchy of authority is formed on the basis of degree of responsibility and accountability. It clarifies the role of each individual from top to the subordinate levels.
6. **Perpetual existence**: An organization is formed for an indefinite period to perform business for a long period of time. An organization continues its existence and operation even while changing in structure, membership, objectives and management.
7. **Environment**: An organization performs activities in a dynamic environment. It consumes resources from environment and also exports output to it. Basically, impact of external environment like political, economic, socio-cultural and technology must be taken into consideration.
8. **Technology**: Technology refers to new knowledge, skills, ideas, procedures, equipment and tools. It is essential to convert raw materials into finished products. The use of appropriate technology in a job helps to develop working efficiency and also help to minimize the cost of output.

***Organizational Goals***

**Concept**

Goals are objectives or aims for which an organization is formed. And setting goals of an organization is the initial function of management. Goals, in fact, are what organizations want to achieve in future. They are the objectives toward which organizations direct their resources and efforts Goal gives meaning and purpose of the organization. They, on the one hand, determine the scope of future activities and serve as reference points to concentrate resources and efforts, on the other they determine the action to be taken at present to obtain result in the future.

“Organizational goals are the objectives that management seeks to achieve in pursuing the firm’s purpose.”--- **Moorhead and Griffin**

***Purposes of Organizational Goals***

1. **To provide guidance and unified direction**: Goals are the basis of future performance of organizations. By considering the goals managers of organizations provide guidance and unified direction to their members. Therefore, goals help every member of an organization to understand where the organization is heading for.
2. **To promote good planning**: Goals are the basis of planning, and a good planning focuses on goals. Managers formulate corporate, tactical and operational plans only by considering organizational goals. Organizational resources are allocated on the basis of goals, because the goals also facilitate in decision making.
3. **To serve as a source of motivation**: Specific, realistic and challenging goals serve as a source of motivation to employees. Such goals are the basis of motivation for efficient, skilled and hardworking employees. Likewise, goals motivate employees to devote their time efficiently.
4. **To** **provide effective mechanism for evaluation and control**: Goals provide an effective mechanism for evaluation and control of performance. They help to set a standard of performance of an organization. When standard goals are achieved, it is assumed that performance is efficient. But if actual performance is below standard, it is essential to corrective measures to improve future performance.
5. **To provide distinct image and identity**: Sound and realistic goals provide a distinct image and identity of an organization among the public. These distinctive image and identity facilitate to attract efficient and competent employees in the organization. Further, the involvement of skilled employees helps to maximize productivity and to improve quality of goods and services.
6. **To allocate and utilize resources properly** : Goals help to develop good plan, and good plan in turn, helps allocate and utilize available resources. In that sense, goals serve as guidance for the optimum utilization of resources. However, proper allocation of resources ( such as human, physical, financial and information) depend on management skills and knowledge of managers. If the goals are clearly stated the wastage and misuse of resources can be minimized.

**Types of Organizational Goals**

1. ***On the Basis of Levels of Management***
2. **Corporate goal**: Corporate goals are formulated by top level management. These goals focus on the realization of the dream of the top level management. These goals reflect the direction in which an organization has to go and the roles each business unit in the organization has to play pursuing that direction. Corporate goals consist of vision, mission and strategic goals.

* **Vision**

Vision refers to the long term aspiration of management. A clear vision provides the foundation for developing comprehensive mission statement and it visualizes the company’s future strategy course. Vision answers the question “Where we want to be?”

* **Mission**

Mission focuses on the vision of the organization. It also represents the philosophy and ideology of the organization. It is the statement of its fundamental unique purpose for setting a business apart from other similar firms, and for identifying the unique scope of the business operation in product and market terms. Mission forces managers to identify carefully for the scope of its product or service by answering the basis question of what its business is.

* **Strategic goals**

Strategic goals are developed on the basis of mission focus on long term objectives of an organization. These strategic goals entail all the basic management functions by setting goals to excel the management of an organization. Generally, strategic goals are set for five to ten years. The examples of such goals are: profit maximization, quality improvement, new product development, allocation of resources, research and development etc.

1. **Tactical goal**

Tactical goals are developed on the basis of strategic goals. Middle level management sets these goals for one or more years by focusing on how to take the necessary actions to achieve the strategic goals. In these stage, strategic goals are classified into departmental goals like production, marketing finance, personnel etc.

1. **Operational goal**

Operational goals are developed on the basis of tactical goals. Lower level management consisting of supervisors and foreman are responsible setting these goals. These goals are basically set for day to day operations of an organization. In this stage, tactical goals are classified into small units to be achieved in a short span of time like in a day or a week.

1. ***On the Basis of Nature of Business and Environment***
2. **Survival goal**

This goal is related to the existence of the organization. It focuses on minimum requirements of an organization to ensure its survival. When organizations face the problems like competition, global financial crises, shortage of funds, then it may be necessary for the organization to find new for survival.

1. **Growth and profit goal**

Most of the organization follow growth and profit goal. When an organization seeks to increase profit, it may become profit goal for that organization. Growth goal, on the other hand, mainly emphasize to increase sales and market share all the time.

1. **Efficiency and leadership goal**

Efficiency goal focuses on the minimization of the operation cost but maximization of productivity whereas leadership goal, on the other hand, refers to creating image and leading the industry. Organizations that focus on leadership goal put emphasis on innovation and quality improvements. They try to create distinct image in the industry sector.

1. **Service and social responsibility goal**

Service goal refers to putting effort to make customer satisfied by providing quality service. Social responsibility goal, on the other hand, puts emphasis on the highest degree of social responsibility. This goal refers to meeting the need of stakeholders including the interest of business itself.

1. ***On the Basis of Area***
2. **Production goal**

Production goal is necessary for manufacturing organizations. This goal focuses on production of quality goods in reasonable price at the right time. This goal is essential to fulfill the market demand and to meet organizational goal.

1. **Marketing goal**

Marketing goal focuses on fulfilling marketing mix; and the marketing mix consists of product, place, price and promotion. Therefore, marketing goal consist of distribution of quality product to needy customers at the lowest possible price, involving for the development promotion strategy to increase market shares through competitive strength.

1. **Finance goal**

Financial goal focuses on monetary management of the organization. And, the monetary management consists of preparation of budget; cash flow trend, position of working capital, cost of capital etc.

1. **Human resource goal**

This goal concentrates on recruitment, appointment and placement of right persons to the right jobs. It involves manpower development activities like training, workshop, seminar etc.

1. ***On the Basis of Time***
2. **Long - term goal**

Organizational mission and strategy are long term goals of an organization. Mission focuses on the vision of the organization by representing its philosophy and ideology. Long term goals often extend for ten years or longer.

1. **Medium -term goal**

Tactical goals are medium term goals of an organization. Middle level management sets these goals for one to five years. These are the sub-division of long term goals to be implemented in practice. In this stage, strategic goals are classified into departmental goals production, marketing, finance personnel etc.

1. **Short-term goal**

Operational goals are short term goals of an organization. These goals are developed on the basis of medium term goals. These goals are basically set for day to day operations of the organization or for one year or less.

***Features of Effective Organizational Goals***

1. **Specific:** An organizational goal must be clearly defined and achievable through organizational resources. It should not to be vague. For this, goals of each department and individual should be clearly stated. For instance, only increase in production is not specific, but 20% increase in production from the previous year is specific.
2. **Measurable**: The goal of an organization should be measurable in terms of quantity, cost, time and quality. It also helps to judge whether goals are achieved or not. For example, production of 100 units of output within one week at a cost of Rs.50 per unit, and quality should meet the N.S.(Nepal Standard) mark.
3. **Acceptable**: the goal should be acceptable and agreed upon by all members of the organization. Managers and subordinates should sit together and discuss the various aspects of the goals and should accept the result through mutual agreement. The goals should not be enforced upon the employees. To achieve the goals, all the members should work as a team.
4. **Realistic**: The goals must be achieved by the hard works of members, though they are challenging. Therefore, the management must set a realistic and challenging goal. For instance, increment of 100% sale may not be achievable but increment of 20% sale may be achievable.
5. **Time-bound**: The goals must be set for specific period of time. It should achievable within a defined time frame. It is essential because achievement of goals after the expiry of the defined time may be useless. If is delayed, competitors may take benefit. For instance, production of 100 units of output per day is a time-bound goal.
6. **Engaging**: It means organizational goals should be attractive and appealing to its member. Such engagement of people is possible only when concerned people participate in goal setting process. When goal setting is discussed with employees, they are more confident and supportive about themselves.
7. **Shifting**: During the course of organization life, the most consistent thing only organization will experience is change. It means the goal will shift or change over the course of time. The organization need to be flexible while they pursue their goals. In this rapidly changing environment organization that stick to the same goals for years can’t successfully achieve them.
8. **Team effort:** People generally don’t follow agreement thoroughly that were set with others. However, a team effort members will be more sensitive to continuing their goals because they will report their success and failure to their managers and supervisor. Team effort binds people together and puts emphasis to accomplish goal successfully.

***Goal Formulation Process***

1. **Environmental scanning**: Environmental scanning is the initial stage of the goal formation process. It is the process of accumulating and analyzing information from the environment. Basically, both internal and external environments are to be scanned to analyze their impact on organizational performance. SWOT analysis- the study of Strength, Weakness, Opportunities, and Threats- is helpful for environmental scanning.

Strength and weakness are the outcome of internal environments and opportunities and threats are the outcome external environment. Internal environment involves organizational goal, culture, resource and structure; whereas external environment are political, economic and socio-cultural environment and technology.

1. **Formation of overall goal**: This is the second stage of goal formation process. In this stage, mission and strategic goals of an organization are defined. The top level management involves in setting the overall goals of an organization. For the overall goal formation, information from the environment should be collected and analyzed. It is a long term goal and directed by environmental trend and focuses on profit goal of the organization. In this stage, the management must fix the financial goal, product-market mix goal, and functional goal.
2. **Formation of specific goal**: This is the final stage of the goal formation process and involves sub-divisions of the overall goals of the organization. In this stage, contribution of each department, unit, branch and individual is defined to fulfill the overall goals of the organization. It is the short term goal and set for a day, a week, a month and so on. Middle and lower level management formulates it for them.

***Approaches to Goal Formulation***

1. **Top-down approach:** This is the traditional approach of the goal setting process. In this approach, top level management sets strategic, tactical and operational goals of the organization. In this approach the top level managers do not take any suggestion and feedback from middle and first line managers while setting goals. They believe that they know what is best because they can only see the big picture of the goal of the organization. The top level authorities may take suggestions and technical guidance from experts and professionals but they take the final decision themselves. They also formulate goals of the organization and circulate to subordinates for implementation.
2. **Bottom-up approach**: In this approach, middle and first line managers are given authority to set their own departmental and unit goals within the given framework. On the basis of the framework of corporate and strategic goal, middle and first line mangers set their unit and individual goals. In this approach the top- level managers integrate and unify the unit goals in consultation with and consent of subordinates playing the role of facilitators and never interrupt in the goal setting process. However, top- level managers may modify the unit and individual goals but only with the consent of subordinates.
3. **Management by objective (MBO) approach**: Management by objective is a comprehensive technique applied for goal setting. Peter F. Drucker propounded this approach in 1954. In this approach, both top and operational level managers of an organization jointly identify the common goal; define each individual’s major areas of responsibility in terms of the results expected from them. MBO process involves four steps consisting of collaborative goal setting, action plan development, periodic review of performance and performance appraisal.

***Goal Succession***

**Concept**

Goal succession is the act of intentional review and modification of existing goals. It is essential when existing corporate goal has been achieved or cannot be achieved in the exiting form due to environmental influence. In course of functioning due to environmental influence, it is necessary to modify the existing goals according to the time and situation to achieve the corporate goals. It is also the part of goal succession.

When the organization faces keen competition, declining sales, scarcity of funds and other environmental challenges, it needs to identify new goals for survival and perpetual existence of organization. For instance, in Nepal, during the political crises between, between 2055 to 2063, hotels and resorts modified their profit goals to survival goals.

***Reasons for Goal Succession***

1. **Achievement of original goal**: When original goal is achieved in a given period of time, it is essential to set a new goal, because it is a part of goal succession. For instance, a cement manufacturing company sets a goal to produce 1000 tons of cement in a process within six month and after achievement of this goal within the time it has to set anew goal for the next period.
2. **Non- achievement of original goal**: The non-achievement of original goal needs goal succession. When original goal cannot be achieved even by the hard work of management, it needs to review and modify the existing goal for perpetual existence of the organization. For instance, a business organization sets a profit goal for a fiscal year, but after some interval it is found that the stated profit cannot be achieved; and therefore, it sets a survival goal for that fiscal year.
3. **Change in environment**: Environment is dynamic and regularly influences organizational functioning. It is more difficult to forecast and predict environmental changes, basically, of external environment. Therefore, every organization needs to modify its original goal in accordance with the environmental changes.
4. **Organizational priority shifting**: Goal succession is the outcome of shift in organizational needs and priorities. Although there may be many objectives that an organization has to achieve, it becomes impossible to achieve more objectives at a time by mobilizing scarce resources. Therefore, an organization may modify its original goal on the basis of its available resources and priority.

***Goal Displacement***

**Concept**

Goal displacement is the act of unintentional change in the original goal into a new goal. In this situation, original corporate, strategic and operational goals are discarded and new goals are set for the survival of the organization. In goal displacement, existing resources are diverted from original goal to achieve new goal. For instance, many cinema halls in Nepal have been converted into party palaces and go-downs due to lack of audiences as movies are nowadays easily available through cable TV and in compact discs. In fact, in goal displacement, the organization involves in various activities such as:

* Substitutes its official strategic goals for some other goals,
* Pursues a goal for which it was not established,
* Pursues a goal for which resources were not allocated to it,
* Seeks a goal which is not known to serve.

***Reasons for Goal Displacement***

1. **Excessive delegation of authority** : Excessive delegation of authority to the subordinates may result in distortion of the original goal. Generally, the mangers delegates authority and responsibility to subordinates, but maintains proper supervision and control over their activities. But excessive delegation of authority and responsibility to subordinates without a proper controlling system may not meet the objectives of delegation and results in goal displacement.
2. **Subordination of organizational goal**: It is an acceptable principle that top priority must be given to the organizational goals. However, if employees give more priority to their individual goals by subordinating organizational goals, it results in goal displacement.
3. **Employees’ attitude**: The management sets organizational goal and circulates them to the employees for their implementation. If employees have a positive attitude towards the organizational goals they can be achieved in an effective way. However, if employees and their unions have a negative attitude towards management decisions, they do not perform effectively, which may result in goal displacement.
4. **Vague goal**: An abstract and vague goal cannot be achieved. Generally, a goal must be specific and achievable within the defined time. However, if a goal is unclear, members of the organization cannot achieve with limited resources. In such a case, the management needs to displace the original goal.
5. **Bureaucratic difficulties:** The management develops rules, policies and procedures to perform organizational functions in a systematic way. However, it is essential to modify and amend such a system remains rigid and static, it may create difficulties to perform jobs effectively. Such difficulties arises in bureaucratic type of organizations.

***Problems of Goal Formulation***

The basis function of the top level management is goal setting. In setting goals, management faces many obstacles. Managers must understand the obstacles that can hamper the goal setting process. **Rocky W. Griffin**(2000)has identified the following six major barriers in goal setting.

1. **Inappropriate goal**: An unattainable goal is known as inappropriate goal. Organizational goals become inappropriate when the management lays more emphasis either on quantitative or qualitative measures. For instance, goals, especially those relating to financial areas, are quantifiable, objective and verifiable, while goal relating to employees’ satisfaction and development are difficult to quantify. Similarly, putting too much emphasis on one type of goal to the exclusion of the other may create difficulties in the overall goal formation process of the organization.
2. **Improper reward system**: An improper reward system such as a major barrier to goal setting. In an organization there must be a balance in reward and goal setting efficiency of the employees. Because, the appropriate reward system encourages employees to devote their effort in the goal setting process. But if the management rewards employees for setting poor goal and does not reward or even penalizes them for setting proper goals, the employees get frustrated.
3. **Dynamic and complex environment**: The environmental change may create difficulty in goal formulation. The rapid technological innovation and keen competition can increase the difficulties of an organization to set goals. At present, it is difficult to assess accurately the future environmental opportunities and threats in goal achievement. Therefore, it is essential to amend organizational goals on the basis of environmental influence.
4. Reluctance to set goals: Some managers are reluctant to set goals for themselves and their subordinates may create barriers in the overall goal setting of the organization. If mangers set goals that are specific, concise, and time-bound, then the achievement of the goals is obvious. Mangers who consciously or unconsciously try to avoid this degree of accountability are likely to hinder an organization’s goal setting. However, the reason for this reluctance may be lack of confidence or fear of failure.
5. **Resistance to change**: The resistance to change is another barrier for goal setting. Generally, people tend to resist change because of lack of confidence and conservative attitude. Members of an organization may fear losing their job due to change in goals. It happens due to lack of proper communication about the outcome of the goal change.
6. **Resource constraints**: Lack of sufficient resources may also create a barrier in goal formulation of the organization. Strong competition, time limit and government restrictions are common constraints in the goal setting process. Therefore, the management needs to consider available organizational resources in goal setting.

***Changing Perspective on Organizations***

1. **Open system**: Traditionally, organizations were viewed as a close system where they didn’t consider social needs and expectation. In close system there is no interaction with the environment and organizations performing their business in this system are treated as machines.

In an open system, there is regular interaction with the environment. The development of competition, technological change, change in government rules and regulations and change in social expectation creates challenges to the organizations.

1. **Organizations as culture**: Culture is the sum- total of values, norms, tradition, beliefs and assumption of an organization. These are the basis of organizational functioning. If any dispute and misunderstanding arises among members or between the management and the employees, organizational culture is taken as the basis to resolve such disputes. An organization having good culture can maintain social prestige and status. Therefore, to strengthen its existence every organization needs to develop a sound culture.
2. **Globalization**: The concept of globalization has been emerging today in business organization. Any quality product and service produced in one corner of any country can easily reach all parts of the world without any restriction and barrier. Especially, multinational companies are global players in business not only to survive but also to prosper. For instance, Coca-Cola, a USA based soft drink, gains about 80% of its profit from foreign sales in nearly 200 countries.

The globalization brings the concept of keen competition among the entrepreneurs of the world. Therefore, present managers have to work by considering the global prospective. Being innovative and adjustable to the changing environment of the business, they have to work with new situations, culture, people and also new parts of the world.

1. **Learning system**: It is fact that knowledge is power and present society is based on knowledge. In this competitive environment, customers expect new ideas, new things and creativity in product and service from any organization.

Knowledge is not only confined to or acquired by managers; however, it can be learned from subordinates through interactions. Every employee involved in an organization may have specific or new knowledge in certain areas of management. Therefore, the most important job of present day managers is to manage knowledge of subordinates on the basis of requirement from outside sources to fulfill social expectation and to maintain the standard of the organization.

1. **Temporary employment**: The concept of employees’ appointment on temporary basis, on contract basis or on daily wage system has been evolved in many organizations. Slowly the concept of permanent employment is being terminated due to priority to work rather than job security and flexibility of work schedule. On the basis of requirement the tendency of outsourcing and sub-contracting for some minor jobs has emerged in many organizations.
2. **Workforce diversity**: Workforce diversity is concerned with involvement of heterogeneous nature of employees in an organization. Such diversity is increasing in organizations today because of changing population dimensions, to improve workforce, official pressure and increased globalization. Among, the several dimensions of diversity, the important ones are age, gender, and ethnicity.

An efficient managers has to manage diverse workforce both from the individual and organizational approaches. The first approach involves development of better environment like understanding, empathy, tolerance, and willingness to communicate, the latter approach involves development of policies, practices, training, and good culture.

1. **Team empowerment**: Teams are formed today to formed a variety of jobs on the basis of requirement in the organization. The members of the team are experts in their own area of operation. The team members, thus, are the in-charge of their work and can perform their work themselves according to their own logic and knowledge. And the managers only communicate information and play the role of coordinators.
2. **Work time flexibility**: Work time flexibility is the emerging practice in competitive business organizations. It is contrast with traditional organizations, like in government offices, where working time for employees is fixed. In such organizations, workers work only for a fixed time specified by the management like from 10 AM to 5 PM. However, in competitive business organizations, the concept of twenty-four-hour operation has been evolved. For this, the total working hours are divided into shifts and workers are allowed to choose their shift according to their convenience.
3. **Participative culture**: The practice of participation of employees in planning and decision making has been emerged in modern organizations. In this practice the top-level management collects opinions, views and suggestions from subordinates before setting goals and taking any decision on its implementation. Basically, the concept of management by objective is implemented in practice, where all the members participate in the decision making.
4. **Technological development**: Technological development is ever growing and an emerging perspective in every organization. It emerges in every sector of social activity including transportation, communication, computer software, data processing works, machine and equipment etc. Such technological development tends to increase the aspirations and expectations of customers, investors, competitors, employees and other stakeholders of the organization.

It is the responsibility of managers to keep in touch with any technological change in their own sector of business and grasp the opportunity to make business a success. They have to modify products and services on the basis of changing needs of the customers. Similarly, quality goods and services must be provided to the customers on the right time, cost and place through the use of modern technology.