UNIT-1

Part – I : Organizations and Its Environment

 # Organizations and Organizational Effectiveness:
In simple terms, an organization is made of people with specific goals and objectives. It is also defined as the relations among components of a system. Organizational structure denotes these components and relations that bind people working in an organization.

"An Organization is a system of consciously coordinated activities or efforts of two or more persons":- Chester Barnard, Management Consultant.

It is a consciously coordinated social entity, with a relatively identifiable boundary, that functions on relatively continuous basis to achieve a common goal.

The key features of an organization can be described as follows:

1. It is a group of people who are organized to achieve a common purpose.
2. It is an entity, a unit, or an establishment, which utilizes resources to achieve some common purpose.
3. It shows a structure of relationships among members of an enterprise.
4. It is a process that enables people working in an enterprise to relate to tasks and facilities, and helps them achieve intended goals.

Organizational Effectiveness:
Effectiveness is the extent to which an activity helps in achieving the long term goals of an organization. Since effectiveness is measured for specific activities, we can define activity-specific effectiveness as the outcome that supports the broader goals of an organization. Organizations perform at different levels of effectiveness. Their growth per year is an indicator of whether they are on a climb or decline. However, organizations in different sectors vary in the way effectiveness is measured and described.

Both qualitative and quantitative tools are used to measure the overall effectiveness. Behavioral parameters, such as values, attitudes, skills etc. are measured using qualitative tools where as, Sales, profit, production etc. are measured by using quantitative tools.

Hence, organizational effectiveness is the extent to which the organization, as a whole, achieves its goals while optimizing its resources. This depends on the management system, organization structure, degree of inter-personal skills, positive attitude, technical competencies, group activities etc. which together contribute to the achievement of organizational goals and objectives.

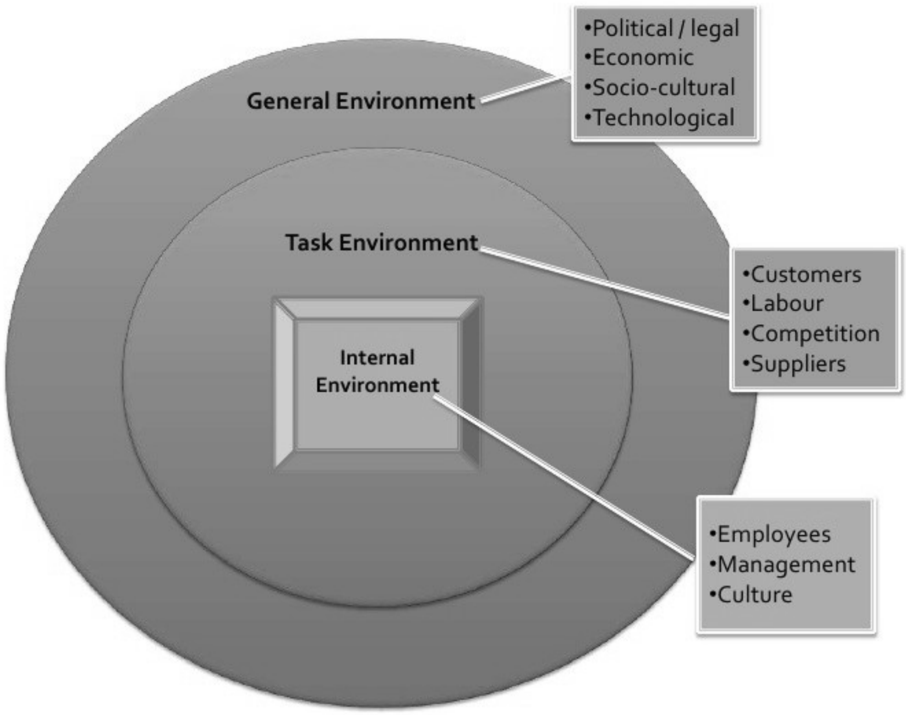
There are basically three principal approaches in measuring and increasing organizational effectiveness.

a) External Resource Approach: An organization using external resource approach uses technology to increase its ability to manage and control external stakeholders. Any new technological developments that allow an organization to improve its services to customers, such as the ability to customize products or to increase products quality and reliability, increase the organization's effectiveness.

b) Internal System Approach: An organization taking the internal system approach uses technology to increase the success of its attempts to innovate, to develop new products, services, and process, and to reduce the time needed to bring new products to market.
c) Technical Approach: An organization taking the technical approach uses technology to improve efficiency and reduce costs while simultaneously enhancing the quality and reliability of its products.

 # Organizational Environment (Business Environment):
Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. Environment occupies a very significant place in the functioning of an organization. Every organization is affected by the change in environmental factors as they do exist in the same environment. Organizational environment consists of the forces and conditions outside the boundaries of a firm. These forces change overtime and thus present the firm with opportunities and threats that influence its ability to carry out its operations effectively to attain its objectives. However, these forces differ significantly from organization to organization, industry to industry and market to market.

The components of organizational environment can be classified into two broad categories- Internal Environment and External Environment. The major forces in the organizational environment are shown in the figure below.



I. Internal Environment:
The environmental forces that lie with in the organizational possession is called internal environment. These environmental forces are controllable to large extent. They pose strength and weakness for an organization. An organization's internal environment has the following components.

a) Management/ Managers: The management system, and quality, competency, skill of managers largely shape the outcomes of an organization. Skillful and competent management is strength where as poor management is weakness for the organization.

b) Shareholders: Shareholders are the real owners of an organization who have a direct interest in the performance of the organization. The directors elected by them represent their interest in the board of the organization which ultimately influence the organization.
c) Structure: Structure is the architecture or framework for organizational roles, hierarchy, relations, authority and responsibility. It comprises individuals, groups, units, and their interrelationships. The type of structure and its frequent change also influence the organizational performance.
d) Employees and their unions: Employees are important assets of an organization. Participation and cooperation with employees is helpful to enhance productivity and attain the desired goals. Similarly, labour unions (representing the member employees) directly or indirectly work for the welfare of the labour, which has rich relation with organization decisions.
e) Corporate culture: Corporate culture represents the collective beliefs, values and attitude of the organizational employees. Both internal and external factors affect an organizational culture. Organizational culture has a powerful influence on the process of organizational change and decision-making.

II. External Environment:
The external environment is more complex and difficult to predict. It is that portion of environment which lies outside the boundary of organization. The external environment can further be classified into two interrelated sub-categories: general (macro) environment, and task (micro) environment. External environment offers opportunities and threats caused by the external forces.

a) General (macro) Environment:
The general environment composed of a set of forces that are outside the organization's operating system. It affects the organization and its task environment. It generally includes- political, economic, social, legal, and technological factors. These are the forces, which are beyond the control of the business firms. The general environment presents opportunities, threats and constraints for the organization. For a manager, opportunities and threats resulting from changes in the general environment are often more difficult to identify and respond to them in the task environment.
i) Economic Environment: The economic environment for an organization involves the system of economic planning and control, fiscal, monitory and industrial policies, the prevailing conditions in the agriculture, industrial and service sectors and so on. Bad or poor economic conditions make the environment more complex and manager's job more difficult and challenging.
ii) Political and Legal Environment:
The political environment refers to the government system, structure composition of bureaucracy, political stability, government-business relation. The policies the government undertakes regarding distribution of economic resources, liberalization, framework of rules and regulations, are highly responsible to determine investment friendly or poor business environment. Government action and decisions, and court decisions regarding encourage, guide and control business, and consumers, communities and workers actions are also important equally which shape the business organization's environment.
iii) Socio-cultural Environment:
Socio-cultural environment comprises of social structural issues (class structure, desires, expectations, beliefs, customs etc.) and cultural issues (values, norms, behavior patterns etc.).

These forces and factors largely affect the organizational activities directly or indirectly. So, the managers must keep on studying and respond to them.

iv) Technological Environment: Drastic developments in the field of communication, information, and other technology have been taking place. In this global age, the outcomes of such changes are enormous and equally advantageous. The changes in this field pose both opportunities and threats for the organizations.

b) Task Environment:
Task environment is also called specific environment that is directly relevant to an organization in achieving its goals. At any given moment, it is that part of the environment with which management will be concerned because it is made up of those critical constituencies that can positively or negatively influence the organization's effectiveness. It is unequal to each organization and it changes with conditions. Typically, it includes forces such as customers, suppliers, competitors, government, financial institutions, labour unions, media etc.

i) Customers:
A customer may be an individual, a family, a business house or an institution. They are important in the sense that an organization exist to serve them. They are not only linked with the organization for the purchase of goods or services but they are also an important source of ideas, opinions, information, and reactions. Managers, therefore, must maintain a close relationship with them.

ii) Suppliers:
Suppliers supply the raw materials for the business organization on which it operates. The regular supply of such materials with good quality at desirable price is very important for the organizations to operate or produce and deliver quality goods and services effectively. Changes in the nature, numbers or types of any supplier result in forces that produce opportunities and threats to the organization.

iii) Competitors:
Competition in the market for an organization is inevitable in this age. To take competitive advantages, information on market behavior and competitors' strategies is gathered and analyzed to identify future opportunities and threats for the firm. Managers must work out strategies to deal with the competitors and competing products. Rivalry relation between competitors is potentially the most threatening force that the managers must deal with.

iv) Labour Unions:
Labour unions who work in the organization and other professional organization may exert pressure to fulfill their interests. These groups may influence the organization by drawing attention of the politicians, legislators and media. Sometime they may take the worse path so that strike and violence may take place in the organization. Progressive managers must understand their desire and employ a participative strategy to build a sound and constructive relation with them.

v) Financial Institutions:
Financial institutions provide financial services to the organizations to meet their long term as well as short term needs. The terms and conditions of loans and advances, and the quality of their services have an impact on the performance of an organization.

Managing in a Changing Global Environment (Contemporary issues and challenges of management):

Globalization implies an integration of world economies. It includes a rapid increase in the movement of goods, services, and capital across national borders. It is related to increase in the significance of individual business that operates in a range of countries. Increasingly, these businesses see the world as a single market.

Mangers must have the insight to see and understand the emerging organizational challenges. Several challenges confront managers today. These challenges are arising mainly from the significant changes in the outside world. We are faced with more turbulent economic periods. Managers face a more restless workforce, more domestic and international competition, and declining industrial performance. They must, therefore, have the skill to diagnose the environment, analyze competitors' actions, compete in international market, and manage the organizational change. The managers' task today, is to respond to emerging issues and challenges.

Following are the key issues or challenges for managers in this globalized age.

a) Workforce diversity:

Organizations are becoming more heterogeneous in terms of gender race, ethnicity, and other backgrounds due to globalization. The participation of women and minorities in the workforce has been increasing. It will continue to increase in the years to come. Managers should realize that employees come to work with their cultural values and lifestyle preferences. The challenge for managers, therefore, is to become more accommodating to diverse groups of people. Conflicts are more apparent today. Consensus is more difficult to achieve because of the diverse backgrounds of employees.

Managers, therefore, will need to shift their approaches and philosophy to workforce management. They should recognize the differences among employees and respond to them in ways that will ensure employee commitment. Diversity, if managed positively, can increase creativity and innovation in organizations.

b) Empowerment:

Organizations are becoming more and more participative these days. The role differences between the managers and workers have narrowed down considerably. Decision making is being pushed down to the operating level. Workers are now given freedom to make choice about schedules, procedures and solving work related problems.

Managers are going considerably further by allowing employees full control of their work. More information is provided to employees to make them aware of the problems and prospects of their organization. Thus, managers are engaged in empowering employees. Various methods of empowerment ranging from simple participation to self-managed work teams have now been practiced in organizations.

c) Technological Advancement:

The modern business is characterized by newer and ever-changing technological perspective. Technological changes such as advances in computers and other electronic data processing equipment have changed the whole system of decision-making. Faster processing of information in material handling, storage, and transportation has enabled the managers to make products available to customers at right time, in the right place, and in relatively good condition. Managers must, therefore, have proper understanding of these aspects.

Technology management has now emerged as an important and crucial management process in the modern business organizations to cope with technological change and match the competitive market.

d) Innovation and Change:
The taste and preference of customers regarding goods and services, an organization offers, have been changing. Hence, organizations must pay attention to innovation and change. Products or services need continuous improvement, up gradation, and modification. In order to beat competitors in the market place, managers must flow innovative products and services. The challenge for mangers is to stimulate employee creativity and wide participation and support for continuous innovation and change.

e) Ethics and Social Responsibility:
Ethics refers a code of conduct through which managerial activities are guided. Today, in most societies codes of ethics have been prescribed for business. Violence of these codes by organizations could be costly for itself. Similarly, as a member of a society, an organization should be responsible regarding social issues. Today, organizations are expected to contribute to the society as a whole. Environmental issues regarding discharge of waste, air and noise pollution are the matters for public attention. Therefore, social responsibilities and ethical issues are handled and managed by managers, which is really a challenging task for them.

f) Corporate Governance:
Corporate governance is concerned with the issues such as; fairness, accountability, responsibility, and transparency in the organizations. Today, it has been realized by the managers that corporate governance is an essential tool for improving performance. The stakeholders (shareholders, customers, government, society, employees, other institutions) have a demand of accountable and transparent management in the organizations. Their expectations would obviously create the challenge in this competitive global age.

Organizational Stakeholders:
Organization exist because of their ability to create value and acceptable outcomes for various groups of stakeholders, people who have an interest, claim or stake in the organization, in what it does and in how well it performs. In general, stakeholders are motivated to participative in an organization if they receive inducements that exceed the value of the contributions they are require to make. Inducements are rewards such as money, power, and organizational status. Contributions are the skills, knowledge, and expertise that organizations require of their members during task performance.

There are two main groups of organizational stakeholders: inside stakeholders and outside stakeholders. The inducements and contributions of each group are visualized in the table below.

Stakeholders	Contributions to the Organization	Inducement to contribute
Inside Stakeholders:		
Shareholders	Money and Capital	Dividends and Wealth maximization
Managers	Knowledge, Skill and Expertise	Salaries, bonuses, status and power
Employees/Workforce	Skill and Expertise	Wages, bonuses, job security and promotion
Outside Stakeholders:		
Customers	Revenue by making expenditure in goods and services	Quality goods and services with desirable price

Suppliers	High quality inputs (raw materials and accessories)	Revenue from purchase of Inputs
Government	Rules and Business Environment	Tax revenue and fair operation
Labour Unions	Fair collective bargaining	Participations and employee welfare
Society	Social infrastructure, loyalty and reputation	Employment, Social welfare and pride

Managerial Ethics:
Ethics are moral principles or beliefs about what is right or wrong. These beliefs guide individuals in dealings with other individuals and groups (stakeholders) and provide a basis for deciding whether a particular decision or behavior is right and proper. Managerial ethics is a code of conduct through which managerial activities are guided. Ethics helps managers determine moral responses to situations in which the best course of action is unclear. Ethics guide managers in their decisions about what to do in various situations. Ethics also help managers decide how best to respond to the interests of various organizational stakeholders.

Sometimes, making a decision is easy because some obvious standards, value or norm of behavior applies. In other cases, mangers have trouble deciding what to do and experience an ethical dilemma when comparing the competing claims or rights of various stakeholders. It is very difficult to make decisions in some cases. For example: whether a manager is to allow its representative to pay bribes to government officials in foreign counties where corruption is common way of doing business. In this situation managers are in a difficult situation because they have to balance their interest and interest of the organization against the interest of other stakeholders.

Following an ethical rule avoids expending time and effort in deciding what is right thing to do. Thus reduce transaction cost between people, that is, the cost of monitoring, negotiating and enforcing agreements with other people. Ethics is also helpful equally to create a good reputation, because, people want to deal with those organizations operating with high ethical standards. Organizational ethics is also equally important to satisfy and make the managers and employees feel pride and valuable.

In sum, acting ethically promotes the good of a society, and the well-being of its members. More value is created in societies where people follow ethical rules, and where criminal and unethical behaviors are prevented by law and by custom and practice from emerging.

Creating Ethical Organization:
There are many ways in which managers can create organizational ethics. As a leader (figurehead), a manager can promote morale values that result in specific ethical rules and norms that people use to make decisions. An organization can encourage people to act ethically by putting in place incentives for ethical behavior and disincentives to punish those who behave unethically. As a liaison or spokesperson, a manager can inform prospective customers and other stakeholders about the organization’s ethical values and demonstrate those values through behavior toward stakeholders – such as by being honest and acknowledging errors. Following are the commonly used methods to ethical organization.

a) Designing an ethical structure and control system:
Managers can design an organizational structure that reduces the incentives for people to behave unethically. The creation of authority relationships and rules that promote ethical behavior and punish unethical acts will encourage members to behave in socially responsible way. Ethical values flow from the top of the organization but are strengthened or weakened by the design of the organizational structure.

b) Creating ethical culture:
The values, rules, and norms that define an organization's ethical position are part of its culture. The behavior of top managers strongly influences organizational culture. An ethical culture is most likely to emerge if top managers are ethical, and an unethical culture can become an ethical one if top-management team is changed. The creation of an ethical corporate culture requires commitment at all levels of an organization, from the top to down.

c) Supporting the interest of stakeholders:
The interest of internal and external stakeholder is also helpful to create ethical organization. The owners do not want to hold stocks in companies that engage in socially questionable activities. So, the owners representing in the board of directors try to create organizational discipline. Pressure form outside stakeholders can also promote ethical organizational behavior. The government and its agencies, industry councils and regulatory bodies and consumer watchdog groups play a role in establishing the ethical rules that organizations should follow when doing business.

 # Sources of Environmental Uncertainty:
The forces in the environment cause uncertainty for organizations and make it more difficult for managers to manage. The set of forces that cause problems, increases uncertainty and affect the complexity, dynamism and richness of the environment. As these forces cause the environment to become more complex, less stable, and poorer, the level of uncertainty increases.
a) Environmental complexity:
The presence of number of forces, their strength and interconnections determines the level of complexity in an organization's environment. The greater the number and the greater the difference between them, more complex and uncertain is the environment and more difficult to predict and control.
b) Environmental Dynamism:
How frequently the forces in the environment change also contribute to the environmental uncertainty. An environment is stable if the forces affect the supply of the resources in a predictable way. An environment is unstable and dynamic if an organization cannot predict the way in which the forces will change over time. An organization in a dynamic, unstable environment will see ways to make to the environment more predictable and thereby lessens the organization's uncertainty about environment.
c) Environmental Richness:
Environmental richness refers the amount of resources available to support an organization's domain. In rich environment, resources are plentiful and uncertainty is low because organizations need not compete for resources. Basically there are two reasons for poor environment.

i) The organization is located in a poor country or poor site of a country
ii) There is high level of competition, and organizations fight for resources

In poor environments, organizations have to battle to attract customers or obtain the best inputs. The result of these battles is greater uncertainty for the organizations. The poorer the environment, the more difficult the problems organizations face in managing resource transactions.

 # Interorganizational Strategies for Managing Resource Dependencies:
Organizations are dependent on their environment for resources they need to survive and grow. The supply of resources, however, is dependent on the complexity, dynamism, and richness of the environment. Organizations attempt to manage their transactions with the environment to ensure access to the resources on which they depend.
To reduce uncertainty, an organization needs to devise interorganizational strategies to manage the resource interdependence in the specific and general environment. In the specific environment, an organization needs to manage its relationships with forces such as suppliers, unions, and consumer interest groups. Following are the most commonly used strategies by the organizations in this regard.

a) Long-Term Contracts:
Long-term contract involves a contract between two or more organizations to carry-out future transactions with certainty. The purpose of these contracts is usually to reduce cost by sharing resources or by sharing risk of research and development, marketing, construction, and other activities. Contracts are the least formal type of alliance because no ties link the organizations apart from the agreement set forth in the contract.

b) Strategic alliance:
A strategic alliance is an agreement that commits two or more organizations to share their resources to develop joint new business opportunities (joint ventures). Joint ventures are the most formal of the strategic alliance because the participants are bounded by formal legal agreement that spells out their rights and responsibilities.

c) Minority Ownership:
Ownership is a more formal linkage than other contracts. Minority ownership makes organizations extremely interdependent, and that interdependence forges strong cooperative bonds.
The Japanese system of “Keiretsu” shows how minority ownership network operates. Keiretsu is a group of organizations, each of which owns shares in the other organizations in the group, and all of which work together to further the group’s interests.

d) Merger and takeover:
An organization some times takes over another organization or one organization gets merged with another organization. As a result of a merger or takeover, resource exchanges occur within one organization rather than between organizations, and an organization can no longer be held hostage by a powerful supplier or by a powerful customer.

e) Collusion and cartels:
Collusion is a secret agreement among competitors to share information for a deceitful or illegal purpose. Organizations collude in order to reduce the competitive uncertainty they experience. Similarly, a cartel is an association of firms that explicitly agrees to coordinate activities. Cartel and collusion increase the stability and richness of an organization’s environment and reduces the complexity of relations among competitors.