

THE NATURE OF ORGANIZATION



LEARNING OBJECTIVES

After comprehensive study of this chapter, you will be able to:

- get the concept of organization,
- explain the concept of organizational goals,
- describe the purpose of organizational goals,
- know the different types of organizational goals,
- be familiar with features of effective organizational goal,
- explain the goal formulation process,
- describe the various goal formulation approaches,
- get the concept of goal succession and goal displacement,
- be familiar with various problems of goal formulation,
- be familiar with changing perspectives of organization.

CONCEPT OF ORGANIZATION

Many activities in our daily life are connected with various organizations. Such organizations provide different goods and services to facilitate our life well-organized. No one among us can imagine sustaining without organization. None of the organization, on the other hand, can be imagined without people. Organizations are the social units inter-connecting people. Organizations are formed whenever people join hands together to accomplish some task to fulfill their common objectives. Schools, colleges, universities, hospitals, department stores, NGOs, INGOs, political parties, clubs, etc. are some examples of modern organization. All of these organizations set specific objectives and specific procedures to attain predetermined objectives. On the basis of objectives of profit or serving society, organizations can be business or social organization.

Mooney and Railey - "Organization is the form of every human association for the attainment of a common purpose."

Chester Bernard - "An organization is a system of consciously coordinated activities of two or more than two people."

Ricky W. Griffin - "Organization is a group of people working together in structured and coordinated fashion to achieve a set of goals."

W. J. Duncan - "It is a collection of interacting and interdependent individuals who work towards common goals and whose relationships are determined according to a certain nature."

Keith Davis - "Organization may be defined as a group of individuals, large or small, that is cooperating under the direction of executive leadership in accomplishment of certain common object."

Jerald Greenberg - "Organization is a structured social system consisting of groups and individuals working together to meet some agreed-upon objectives."

Louis A. Allen - "Organization is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives."

Robbins, Coulter and Vohra - "An organization has three characteristics: a distinctive purpose, composed of people, and a deliberate structure. Many of today's organizations are more open, flexible, and responsive to changes than organizations once were."

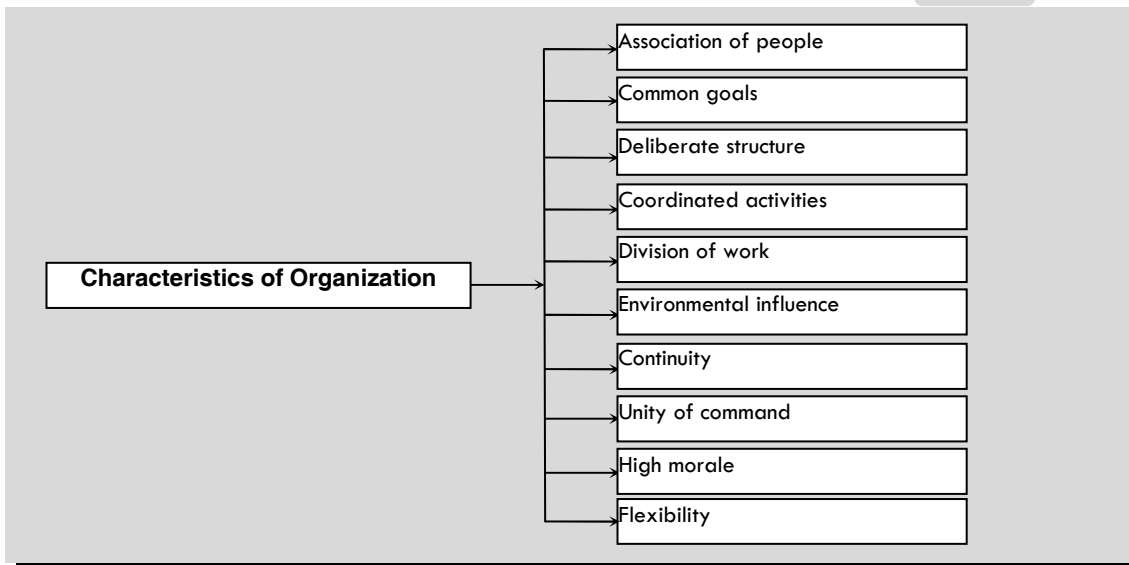
On the basis of these definitions, we can conclude that organizations are the forms of human association for the attainment of common goals. This means, people having common objectives and goals join organization. They establish formal relationship among individuals with certain responsibilities and authority. Authority is the right to make decision on various issues so that it sets leadership in the organization whereas responsibilities are the obligations of individuals to accomplish. Proper balance of authority and responsibility is the most essential for smooth flow of activities and constant growth of organization. To cope with changing business environment and complexities, organizations need to be more flexible.

In a Nutshell

- *Organization is an association of people with common goals and integrated effort.*
- *Organization is a functional entity.*
- *Organization is a system.*
- *Organization is a relational framework of responsibility and authority.*

FEATURES OF ORGANIZATION

Organizations, in general, are the association of people with common objectives and efforts. They have to operate in dynamic and complex business environment with appropriate balance of authority and responsibility. Organizations bear the following common features :



1. **Association of people:** Organization is a social unit created by association of two or more people having common goals to attain. They develop social relationship in workplace while working together to achieve their common goals. Success or failure of organization depends on their mutual understanding, co-operation and support.
2. **Common goals:** Organization is consciously created to attain common goals of people associated with it. Organizations may have different goals like making profit, wealth maximizing, creating organizational value, etc. Such common goals integrate all the members together and encourage them to demonstrate acceptable behavior in group. Only the people having similar or common goals join together in an organization.
3. **Deliberate structure:** An organization is deliberate structure in which jobs and responsibilities for each person are well designed. The relationship between authority and responsibility in the organization is called organizational structure. Structure helps to distinguish the jobs of each individual and level of decision making power.
4. **Coordinated activities:** Efforts of all members in an organization should be coordinated to achieve predetermined goals. Coordination in functional activities creates synergy effect. Synergy is the effect which generates greater output than simple arithmetic sum of efforts i.e. with synergy; it is possible to get $2 + 2 > 4$. This indicates that with coordinated efforts, organization gets more than the sum of individual efforts.
5. **Division of work:** Complex organizational works are divided into small activities on the basis of homogeneity of skills required. It helps to get job specialization. People can choose the job on the basis of their skills, ability and interest while organization can assign responsibility according to person's skills, ability, experience and interest. This ensures reduced wastage, improved job satisfaction and greater commitment. Efficiency and productivity of organization can be increased through division of work.
6. **Environmental influence:** Each organization must operate in a dynamic and open business environment. There are many external and internal environmental factors which influence the organizational activities directly or indirectly. Changing priorities of customers, changing government rules, regulations and policies, competitor's activities, change in economic, political, socio-cultural, technological and global factors affect the organizational activities and strategies. Organization needs to change its rules, regulations and policies according to environmental changes.

7. **Continuity:** Each organization aims to continue its activities endlessly. Predetermined objectives may or may not be attained at right time. Organization sets new goals and targets to make it continuous after attaining goals. If the organization fails to attain goals, it continues the same strategy, or sets new goals. In the organization, directors, managers and even shareholders may be changed but organization continuously operates its activities for years and years.

ORGANIZATIONAL GOAL

General meaning of goal is the end state or future destination or target to attain. Thus, Organizational goal is the target of organization about what it aims to achieve or destination where the organization wants to be in future. Goal of organization is the basis or reason of existence of any organization. An organizational goal is the desired output or final destination towards which organizational activities are directed. Goal provides direction to organization so that all the activities will be organized and controlled for attaining the goal.

Organization set the final goals with integrating objectives. Objective of an organization is a short-term, specific, measureable, attainable, realistic and time bound target of an organization. Organizational goal should be acceptable to each member of organization. Common organizational goal is the source of inspiration and motivation of people associated with it.

Etzioni : "Organizational goal is a desired state of affairs that organizations attempt to realize."

Ivancevich, Donnelly and Gibson : "Organizational goals are the broad aims which serve as guides for action and as the starting point for more specific and detailed operating objectives at the lower levels of organization."

Parrow : "Organizational goal is a useful frame of reference for an organization to conduct its affairs."

Organizational goals are the commitments of the organization to achieve desired result within specific time frame. Goal of the organization tells employees about where the organization is heading for and how the organization plans to attain the desired state. Organizational goals have four basic functions:

- Goals provide guidance and unified direction for employee in the organization.
- Goals facilitate for effective planning.
- Goals motivate and inspire employees to work harder especially if attaining the goals is likely to result in rewards.
- Goals help organizations for effective mechanism for evaluation and control performance.

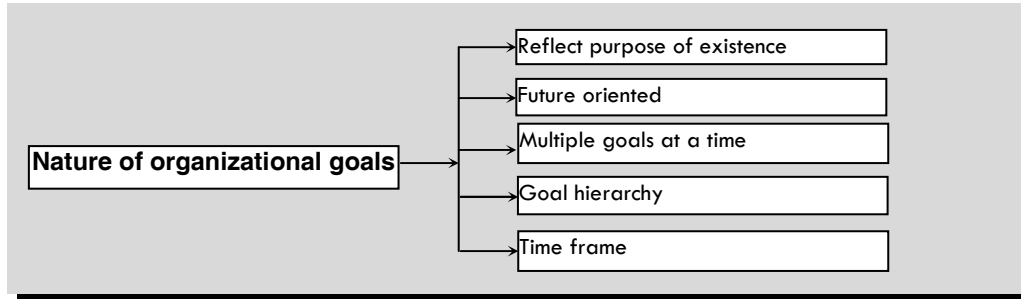
The nature of organizational goals differs from organization to organization. The specific goal of business organizations is to make more profit while social or service organizations may have goal of social welfare. Every organization must determine goal statements satisfying Specific, Measurable, Attainable, Realistic and Time bound i.e. SMART. Organization can set multiple goals at a time but must have priority to urgent and crucial goals.

NATURE OF ORGANIZATIONAL GOAL

Organizational goals serve for coordinated efforts of management as well as operating employees as it provides destiny and purpose of organizational establishment. Only those organizations which set SMART goals can be successful. Effective goals should consist of following common features :

1. **Reflect purpose of existence:** Goals of any organization reflect for what purpose is the organization established. Goals direct the activities of organizational organism. Quality of organizational goals verifies the reason of establishment of organization. This also indicates how long the organization can sustain with its purpose.

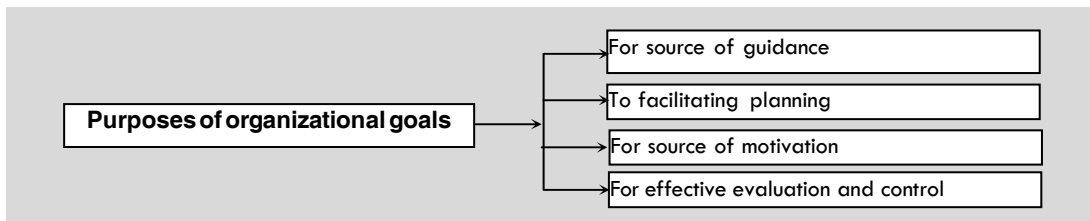
2. **Future oriented:** Goals are designed for future activities. It provides final destination of organization. Goals direct where the organization wants to be at specific point of time. Main objective of setting goals is to set activities, priorities, and efforts to attain the end target. Thus, goals are formulated for future. Goals can be set for specific time period like long term, short term or medium term.



3. **Multiple goals at a time:** Organizations may formulate many goals at a time. Profit maximization, market expansion, product diversification, etc. are multiple goals which can be fixed by an organization at a time. But, to be specific, organization can prioritize the goals on the basis of its strengths, weaknesses, opportunities and challenges.
4. **Goal hierarchy:** Goals have specific hierarchy according to the hierarchy of organizational structure. Different levels of organization set their goals as per their functional responsibilities. Top level of the organization sets overall goals, department level management sets goals for departments and operating level formulates the operational goals. For instance, main goal of organization can be 'being best service provider in the region within 5 years of time.' In order to get this goal, different departments need to formulate their specific goals for example, production department must set goal of designing attractive and cost effective service packages, marketing department should set the goals of market expansion, and account department need to formulate reducing accountable payable and receivable. Likewise, operating units of each department must set their goals accordingly. This means, goals may form a hierarchy.
5. **Time frame:** Organizations set goals across the different time frame. According to the time horizon of goals, they can be classified into short term goals, intermediate term goals, and long term goals. Top level management formulates strategic goals which are long term goals. Department level i.e. middle level managers set tactical goals which intermediate goals. Operational level i.e. lower level managers set operational goals which are short term goals. Long term goals are set generally for more than five years, middle level goals are formulated for three to five years and operational goals are prepared in general for only one year. But time frame of goal formulation may vary organization to organization on the basis of their area of functions, nature of organization, complexity and level of competition.

PURPOSES OF ORGANIZATIONAL GOAL

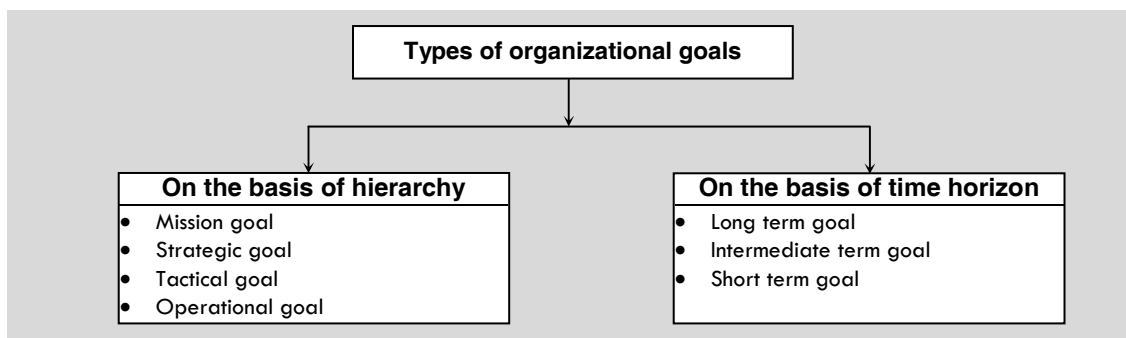
Goals provide reason for the establishment and existence of organization. Goals are end target with desired results that organizations want to achieve. A goal basically serves four important purposes. Some important purposes of setting goals in organization are discussed below :



- i. **For source of guidance:** Organizational goals provide a source of guidance and sense of unified direction to every individual associated in an organization. They help every employee to understand the roadmap of organization where and how it can reach at what time. Every individual feels ownership on the action and result of efforts. Specific and measureable goals can motivate employees for coordinated efforts.
- ii. **To facilitate planning:** Goal setting and planning process are complement to each other. Goal setting practice strongly helps on organizational planning process. Goals are basis and starting points for planning. Goals provide future state of organization where and when it wants be. Planning sets the activities how it can be there. Thus, goal setting is the most essential for effective planning. It helps to determine strategies, policies, procedures, rules, regulations and budgets in planning process.
- iii. **For source of motivation:** Goals can serve as a source of motivation to employees. Goals provide the answer of every question of employees in the organizations. They see the end result where they will be in the future. Goals help to improve performance of employees in organizations. Results can be seen in terms of quantity which obviously motivates the employees of that organization.
- iv. **For effective evaluation and control:** Goals set the standard for 'what result' is to be achieved at 'what time'. Goals can be short term, intermediate term, and long term. It should be measurable and attainable. Organization at the large extent and employees as individual level, can measure whether they are achieving goals or not and at what extent goals are achieving. This helps to apply control mechanism to attain goals or redefine the goals. Thus, it serves as an effective mechanism for evaluation and control. In this process, performance of all employees is assessed. Quantitative figures of goals can be taken as the standard for evaluation. Standard is compared with actual performance to apply corrective actions in control process.

TYPES OF ORGANIZATIONAL GOALS

Each organization sets goals. Overall goal is formulated by top level management while short term goal is formulated by operation level. Goal can be classified on the various basis as per wish and will of person. Generally, goals can be classified on the basis of goal setting level in the organization or time horizon of the goal. They are explained in brief as follows :



1. **Classification on the basis of hierarchy:** On the basis of organizational hierarchy i.e., level of management, different goals can be formulated. According to level of management, different types of goals with different influence and importance can be formulated. Such goals can be as follows:
 - i. **Mission goal:** Mission statement of an organization is the mission goal of the organization. This reflects the vision of top management about organization's business. Mission refers to what an organization wants to become in the long run. It provides basic facts and reason for existence of any organization. It focuses on image, philosophy and aspirations of the

organization. Mission goal is formulated by top level management through general assembly and Board of Directors. Following goals are examples of mission goals:

- A college may formulate mission statement as *to provide quality education thereby installing a sense of responsibility, love and fraternity in the students.*
- A manufacturing company may formulate mission statement as *to be number one food provider with greater accountability and sense of public responsibility.*
- A hospital may formulate mission statement as *caring nation with curing nation.*

ii. **Strategic goal:** Strategic goal is the formal statement of purpose made by top management to attain mission. Strategy is a broad statement that provides the future direction and scope. These goals are also set by top level management with the help of middle and lower level management. Top management should scan environmental effects to exploit the opportunities before setting strategies. Following goals can be the best example of strategic goals:

- A management college may set statement as– *the institution aims to be the center of learning for the students who aspire to be globally competitive.*
- A manufacturer may set statement as being the manufacturer of *centre of food production aspiring to be naturally healthy.*
- A hospital may formulate the statement as– *health priority to all.*

iii. **Tactical goal:** These goals are set by middle level managers for departmental purpose. They are also called functional level or divisional level or intermediate goals. These goals have shorter time span and more specific than strategic goals. The focus of such goals is to operationalize organizational effects to achieve strategic goals. Followings are some common tactical goals in the organization:

- Account department may formulate goals *to reduce account receivable and payable within the year.*
- Sales department may set the goal *to recover the sales within the year.*
- Marketing department may formulate goal of *expanding market by ten percent within the year.*
- Production department may set the goal *to reduce the wastage by ninety percent within two years.*

iv. **Operational goals :** These goals are set for lower level managers. Main objective of setting these goals is to operate day to day activities efficiently. The nature of operational goal is very short i.e. daily, weekly, monthly, quarterly or yearly. They help and provide guidelines to achieve tactical goals.

- Production unit may set the goal of *reducing absenteeism of employees within the month.*
- Sales department may set the goal of *dividing market on the basis of volume purchase within three days.*
- Account department may formulate the goal of *finalizing balance sheet within the week.*
- Marketing department may formulate the goal of *launching promotional activities within the week.*

2. **Classification on the basis of time span :** Organizations need to formulate goals for different time horizon. Some of the goals must be set for very short time whereas some others could be for long time on the basis of their expected time to attain. So, on the basis of the time required to attain the goals, goals can be of following three types :

i. **Long term goals :** Each organization has certain reasons of its establishment. Such reasons can be attained at long run. Such reasons are the final destiny of organization. So, organizations formulate mission statements, corporate goals and strategic goals to reach to the final destiny. Such goals having long run impact or guidance are called long term goals. Long term goals are formulated for long run specially for more than five years. This means, long term goals are expected to attain gradually at several years. Following goals are the examples of long term goals:

- A college can formulate goal of being *number one education institute* within **ten years**.
- A food chain restaurant can formulate goal of being *best food provider* in the region within **five years**.
- A cement company may formulate its goal as being *partner in national development* within **ten years**.
- A construction company may formulate its goal as *extending market in Asian Countries* within **eight years**.

Long term goals may be adjusted with the time and situation but main motive of such goals need to be same. Here, adjustment in long term goals is made with strategies of the organization. For this, organization should establish the culture of research and development to identify the market opportunities and threats.

ii. **Middle term goals:** In order to attain long term goals, organization needs to breakdown the goals into departmental goals. Each department formulates its goal according to its functional area. These goals are called middle term goals. Such goals are set for two to five years. Tactical, functional or divisional goals are middle term goals. They are formulated for departments in order to facilitate for the attainment of long term strategic goals. Following goals are some examples of middle term goals :

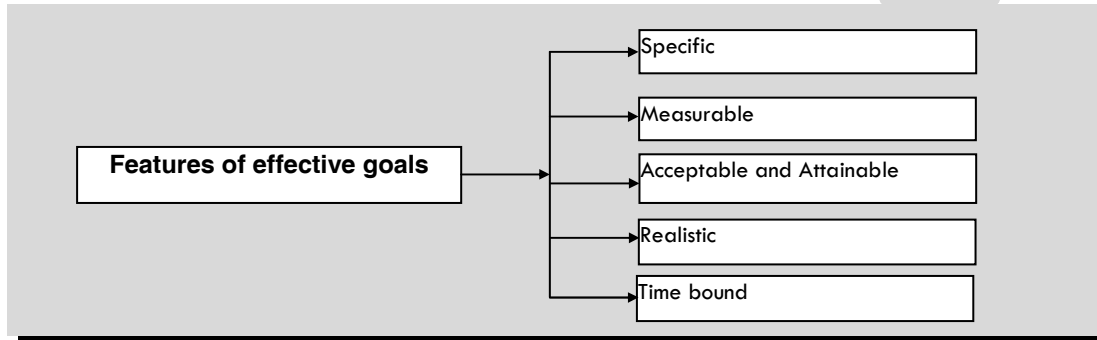
- Production department can formulate a goal of *installing advance production machine* within **three years** to *reduce per unit production cost*.
- Marketing department can formulate a goal of *extending market throughout Nepal* within **two years**.
- Marketing department can formulate a goal of *increasing market share by thirty percent* within **two years of time**.
- Human resource management department can formulate a goal of *providing basic training to all employees* within **three years**.
- Finance department may formulate goal of *reducing cost of capital significantly up to six percent* within **three years**.

iii. **Short term goals :** Operational goals are formulated by several units of organization in order to increase efficiency of individual units. These goals are set to facilitate corresponding departmental goals. Such goals are formulated to conduct regular activities more effectively for less than one year. These goals are established by unit managers or supervisors. Following goals are examples of short term goals :

- Each unit can formulate goal of *reducing absenteeism by five percent* within **one year of time**.
- Production unit can formulate goal of *replacing production process to new and updated* within **one year of time**.
- Marketing unit of XYZ product can formulate goal of *extending its sales by ten percent* within **one year of time**.
- Particular training unit of HR department can formulate goal of *providing training to new employees* within **three months of time**.

FEATURES OF EFFECTIVE ORGANIZATIONAL GOALS

Only effective goals can be attained. Every organization formulates certain goals but such goals have to satisfy certain criteria to be effective. Effective goals motivate employees as goals are sources of motivation. Thus, while setting goals, managers need to be much careful. Before setting goals, managers need to analyze strengths, weaknesses, opportunities and threats. Management must scan the change in business environment. Basically, effective organizational goal must satisfy the criteria of "SMART" which are explained below :



1. **Specific:** The goals must be stated clearly. They should not be vague and ambiguous. Most of the employees cannot understand vague goals. Goals of each and every unit, department and unit should be specific and linked into organizational goals. Some goals like 'Increase in market share', or 'delivering high quality products' can be taken as vague goal as they do not provide specific limits. Instead of this, increasing market share by ten percent or delivering foods with WHO standard are more specific. Specific goals can be easily understood and motivate employees to devote their effort to attain organizational goals.
2. **Measurable:** As far as possible, organizational goals should be quantitatively measurable in terms of number i.e. quantity. The measurement can be in terms of quantity, quality, cost and time. Measurable goals help evaluate employee's performance. Employees can evaluate their performance themselves and they can be motivated with the attainment of goals. Such goals also facilitate in monitoring the organizational activities and setting strategies to set new goals or adjust the strategies to attain remaining goals.
3. **Acceptable and Attainable:** Organizational goals should be accepted by all concerned authorities, management, and employees of organization. Goals can be made acceptable if they are formulated in participation of managers and subordinate level employees. Acceptable goals motivate everyone associated with the organization to pay their effort which ultimately facilitates in achieving goals easily.

Goals should also be attainable i.e. feasible. This means only the feasible goals which can be attained motivate everyone in the organization. Managers and employees believe on the goal and trust on their efforts so that their effort can be enough to attain predetermined goals. If employees do not believe that the goals cannot be attained, goals are too vague and ambitious, such goals discourage employees. If employees do not realize that the goals cannot be attained or are not attaining, they get frustrated.
4. **Realistic:** Goals should be realistic, sensible and rational. Goals should be based on fact but not hypothetical or imaginary. Goals should be balanced and have reasons for their formulation. Realistic goals can be accepted by each person involved in organization. Goals should be challenging but should not be unrealistic. Impossible targets, vague end results and unclear activities make the goals unrealistic.
5. **Time bound:** Every goal must have a specific time frame for its achievements. There should be starting date and ending date for goals. Time must be allocated to complete a particular goal. Goals without time frame cannot motivate individual in the organization. Employees, for such goals, do not pay priorities and pay effort as they think they have sufficient time and or organization has not paid priority for the goals. Thus, time free goals neither motivate employees nor provide proper direction to the employees for efforts.

FAST Beats SMART : A New Approach to develop Goals

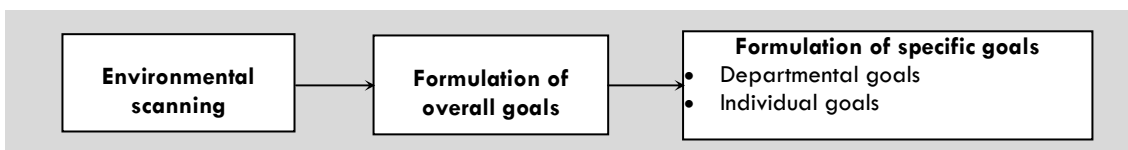
According to traditional wisdom, goals must be SMART; specific, measurable, attainable, realistic and time-bound. But, SMART goals undervalue ambitions, focus narrowly on individual performance, and ignore the importance of discussion goals throughout the year. To drive strategy execution, leaders instead should set goals that are as FAST – Frequently discussed, ambitious, specific and transparent.

	Definition	Benefits
Frequently discussed	Goals should be embedded in ongoing discussions to review process, allocate resources, prioritize initiatives, and provide feedback.	<ul style="list-style-type: none"> • Provides guidelines for key decisions. • Keeps employees focused on what matters most. • Links performance feedback to concrete goals. • Evaluates progress and course corrects.
Ambitious	Goals should be difficult but not impossible to achieve.	<ul style="list-style-type: none"> • Boosts performance of individuals and teams. • Minimizes the risks of sandbagging. • Forces boarder search for innovative ways to achieve goals.
Specific	Goals are translated into concrete matrices and milestones that force clarity on how to achieve each goal and measure process.	<ul style="list-style-type: none"> • Clarifies what employees are expected to deliver. • Helps identify what is not working and quickly courses corrects. • Boosts performance of individuals and teams.
Transparent	Goals and current performance should be made public for all employees to see.	<ul style="list-style-type: none"> • Makes use of peer of pressure to perform on goals. • Shows employees how their activities support company goals. • Understands other team's agendas. • Surfaces activities that are redundant or unaligned with strategy.

Source: With Goals, FAST Beats SMART, By Donald Sull and Charles Sull, MIT Sloan Management Review, June 2018, sloanreview.mit.edu/x/59432

GOALS FORMATION PROCESS

Organizational goals should be formulated carefully. Goals should be specific, measurable, acceptable and attainable, realistic, and time based. Goal formulation is a complex and unique process in an organization. Only the effective goals can be attained within time frame as specified. Goals provide direction for efforts of organization and encourage employees and managers to pay efforts. Goals are the basis of organizational existence. Therefore, organizations should give proper emphasis while formulating them to make effective. The process of goal formulation differs organization to organization. It depends on size and nature of organization, attitude of top management, efficiency of managers and participative culture. The most common goal formulation process of business organizations consists of following steps :



1. **Environmental Scanning:** Environmental scanning is the first step in goal setting process. In this step, organizations analyze internal and external environmental factors which directly or indirectly influence organizational activities. External environment of the business provides threats and opportunities to the organization. Likewise, internal environment provides strengths and weaknesses. By using organizational strengths, organizations grab the opportunity which is the basic foundation for attainment of goals. Thus, before formulating goals, managers should gather basic information to study the impact of external environmental factors. Organizations must estimate strength and weakness of organization to overcome organizational challenges to attain opportunities. In the environmental scanning process, external factors like political-legal, economic, socio-cultural, technological and global environmental forces are analyzed. In this process, current status of these factors, rate of change in such factors and chances of changes are analyzed sincerely. For this, different computer based programs and techniques can be used. Expert opinion and suggestions are required to make analysis. Similarly, managers should analyze internal factors like technology, human resources, capital, organizational culture, etc. to identify strengths and weaknesses.
2. **Formation of overall goals :** After analyzing the environmental factors, top level management determines the overall goals like mission goals and strategic goals. Such goals determine the key areas of business. Overall goals provide the reason of organizational existence i.e. main cause of organizational establishment. Such goals should be measurable and clear. Overall goals are long-term goals of organization. Overall goals are formulated by top level management on the basis of information obtained from environmental scanning. Middle level managers are participated in formulating the overall goals. Departmental and operational goals are formulated on the basis of overall goals. Following goals are common overall goals formulated by organizations:
 - A business organization can formulate goal of *making fifty percent profit on capital investment* in five years.
 - A telecommunication organization can set goal of *being number one service provider in nation* within three years.
 - A manufacturing company can formulate goal of *being market leader* within ten years of time.
3. **Formation of specific goals:** After setting overall goals, organizations formulate specific goals for departments, divisions, sections and individual. Organizations prepare a hierarchy of goals according to levels of organization. Tactical goals are prepared for middle level managers and departments. Similarly, operational goals are formulated for divisions and sections. Specific performance goals are formulated to handle daily activities for operating level managers.
 - **Departmental goals:** As you know, different departments perform separate functions. Thus, according to their functional area, departments formulate departmental goals. Departmental goals are set on the basis of overall goal and in coordination with other departments. Departmental goals are intermediate term goals.
 - **Individual goals :** Each department assists to formulate goals for each division, sections and individual involved in those sections. Such goals are prepared to facilitate the departmental goals. Normally, individual goals are short term goals. It is important to formulate individual goal in association and coordination of each individual involved within and in different production units.

Followings are some examples of specific goals :

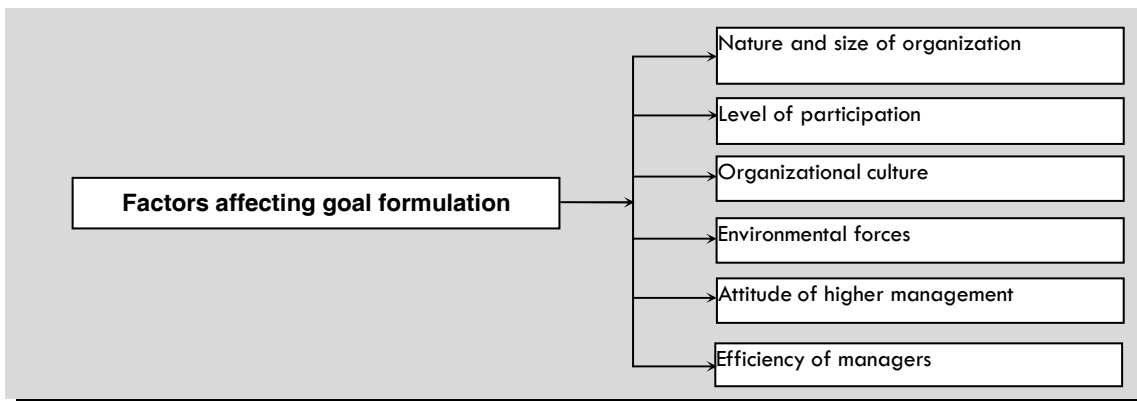
- Account department formulates goal of *reducing account receivable and payable* within two years as departmental goal.
- Production department formulates goal of *increasing production capacity by five hundred each day* within two years.
- Human resource department formulates goal of *providing training to all employees* within two years.

- Production unit of a restaurant formulates goal of *reducing wastage to one percent within one year* as unit goals.
- Sales department formulates goal of *increasing sales by each sales person by ten percent* within one year as individual goal.
- Marketing department gives *target to extend market of each product by five percent within six months* as individual goal.

FACTORS AFFECTING GOAL FORMULATION PROCESS

Goal formulation process is affected by number of factors. Some of them are listed below :

1. **Nature and size of organization :** Nature of organization differs the functional area of other organizations. Financial institutions, manufacturing organizations, service organizations, etc. are established for different purposes and hence they have to conduct different activities. Different organization on the basis of nature, the business environmental factors also differ. Thus, they have to formulate their goal differently. Likewise, large, medium and small size organization also set different goals on the basis of their capacity. For instance, large organization may formulate goal of market leading in few years, medium size organization formulates being market followers but small organizations need to formulate goal of getting profit whatever the market opportunities will be in future. Thus, nature and size of organization affect on goal formulation process.



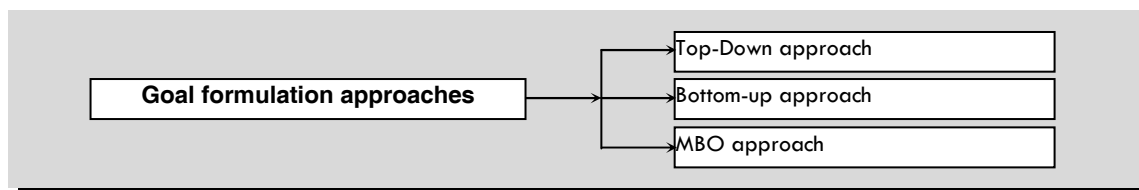
2. **Level of participation :** Participation of managers and operating level employees affect the goal formulation process. Though the participation of all level managers and employees delays the decision making but participation increases the effectiveness of goals. Participation of all concern parties increases the chances of accepting the goals of organization because of which employees get motivation. Participation increases the risk of diverting the main goal of organization. Thus, top level management should formulate the overall goals and participation becomes more beneficial for departmental and unit or individual level goals.
3. **Organizational culture :** Organization culture is the sum total of established values, beliefs and traditions. Organizational culture determines to what extent of employee participation in decision making, employee values, training and development practices, business ethics, etc. These things are more important in goal setting. For example, if organization is more concerned with social responsibilities, goal can be gradual profit, creating employment opportunities to local, being number one tax payer in the nation while if it pays less concern regarding social responsibility, the goal can be quick return of investment.
4. **Environmental forces :** External environmental factors like political-legal, socio-cultural, economic, technological and global factors directly affect on goal setting as well as in goal attainment. External factors provide opportunities and threats which influence in goal setting. Likewise, internal factors

provide strengths and weaknesses to the organization. Organizations need to formulate the goals to attain opportunities provided by external environment by using internal strengths.

5. **Attitude of higher management :** Attitude of higher management also affects on goal formulation process. Attitude of management influences on participative approach in goal formulation, resources utilization and strategic formulation with other organization as well. Open and broad attitude of management positively affects the goals which become more effective goals whereas narrow and restricted attitude affects negatively in goal formulation.
6. **Efficiency of managers :** Top level management formulates, in general, the overall goal but departmental goals and operating goals need to be formulated by department managers and operating level managers. They need to revise the goals according to attainment of goals and environmental influence. They have to formulate new goals at attainment of predetermined goals, revise goals at non-attainment or in environmental changes. Efficiency of managers affects on environmental scanning, identification of opportunities and threats, estimation of strengths and weaknesses which affect on goal formulation.

GOAL FORMULATION APPROACHES

Managers normally follow two basic approaches i.e. top-down approach and bottom-up approach to goal formulation. But modern organizations with modern management practices are using third approach i.e. Management by Objectives (MBO). A brief explanation of these three approaches is given below :



1. **Top-Down approach :** According to this approach, top level managers determine overall goals, departmental goals and goals for subordinates. They may formulate goals with the help of experts. Top level management formulates goals without participation of departmental and operating level managers. Formulated goals are approached and circulated downwards i.e. departmental and operating level managers for implementation. This approach assumes that organizations need direction and control over middle level and low level managers to formulate the goals. This approach facilitates for quick formulation of goals but goals may be less effective because of chances of wrong scanning of environment. Normally, small and traditional organizations follow this approach of setting goals.
2. **Bottom-up approach :** In this approach, lower level managers set goals for related units i.e. operational units and division. Goals formulated by lower level managers are submitted to the department level managers. Department level managers revise the goals formulated by operating level managers in necessity. Revised goals are then, forwarded to the top level managers. Top level management finalizes the goal with some necessary amendments. This approach assumes that top level management needs help of subordinates to determine effective goals. Participation of employees encourages them to attain organizational goals effectively. But, because of lack of proper guidance and control to lower level managers and middle level managers, lack of managerial inefficiency and lack of experience of managers, goals may be less effective.
3. **Management by objectives (MBO) :** MBO is a management technique developed by Peter Drucker. According to this approach, all level managers should be equally responsible to set effective goals. They should formulate goals jointly. Thus, this is a participative approach of goal setting. Participation of all level managers provides sense of ownership to employees on formulated goals. Each individual's responsibilities in term of expected results are defined and their performance is

periodically evaluated in terms of goal achievement. Feedback on performance is provided to subordinates. Similarly, best employee or manager contributing to goal formulation is awarded on the basis of their performance and participation. Main focus of MBO approach of goal formulation is to provide its proper emphasis at the participation of employees.

Following steps are followed in goal formulation process in MBO approach:

- a. Organizational overall objectives and strategies are formulated at the first.
- b. Major objectives are allocated among divisional and departmental units.
- c. Unit managers formulate specific objectives for their respective units in collaboration with their managers.
- d. Specific objectives are collaboratively set with all department members.
- e. Action plans, defining how objectives are to be achieved, are specified and agreed upon by managers and employees.
- f. The action plans are implemented.
- g. Progress toward objectives is periodically reviewed, and feedback is provided.
- h. Successful achievement of objectives is reinforced by performance-based rewards.

GOALS SUCCESSION AND DISPLACEMENT

A. Goal succession

Environmental forces play important role in goal formulation. All organizations need to review and modify existing goal according to the changes in environmental forces. Organizations frequently change or modify the goal in order to adapt the environmental changes, to set new goal at the fulfilment of predetermined goals, or to set new goal if existing goals are surely unattainable. Such changes or amendment in goal can be intentional or unintentional. If changes in goal are made intentionally for above mentioned reasons, this process is called goal succession. Thus, goal succession is the process of intentional attempt to change or renew or modify the goal by organization. When an intentional change occurs in the goals of an organization, it is termed as goal succession. Succession may be important to change the current goals of organization when organizations face problems because of sharp competitions, decline in market share, shortage of capital, etc.

Following reasons are responsible for goals succession:

- i. **Achievements of organizational goals:** If organizational goals are achieved, in that situation organization must adapt new goals. When an organization fulfils predetermined goals for which it was created, it faces the problem of meaning for existence. Through goals succession, organization sets new goals for its continuity.
- ii. **Change in environment:** Organization must adapt in changing environment. Political-legal forces, economic forces, socio-cultural forces, technological forces and global forces are important forces which create opportunity as well as threats. When such forces get change, it is essential either to modify existing goals or to adopt new goals as such changes create opportunities or threats. For instance, due to liberal economic environment, public enterprises of Nepal are compelled to set new goals to generate profit in addition to provide service to the society.
- iii. **Unachievable goal:** When organizational goals are declared unachievable or realized impossible to achieve, organizations must adopt new or modified goals. Specially, if existing goals are proved more ambitious and more unrealistic to achieve within existing environment, it is essential to adopt new or modified goals.

B. Goal Displacement

Goal displacement refers to the unintended or forceful change in predetermined organizational goal. The original goal is completely discarded in case of goal displacement. In other words, goal displacements may be stated as a situation in which new goal has been developed with completely discarding original

strategy and tactical goal even without interest of top level management. It occurs in a condition when organizational resources and efforts are diverted far from original goals.

D.E. MacFarland – “Goal displacement in a business organization occurs when decision makers substitute tangible goals of broader, riskier, more uncertain long range goals.”

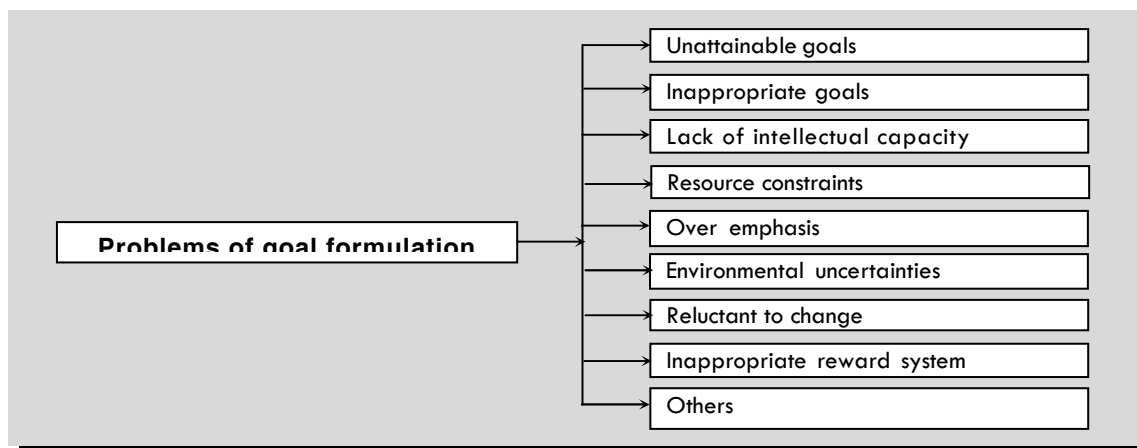
This means, goal displacement occurs with completely substituting existing goal with new one. Decision makers do not want to take risk of failing predetermined goals. For this reason, they displace the goal by new one. In goal displacement, broader and long term goals are replaced by specific goal.

General reasons for goal displacement are as follows:

1. **Goal conflict** : When organizational goals and individual goals conflict each other, goal displacement is necessary. Specially, when employees pay more interest for own goal rather than organizational goal then goal conflicts may arise. In this situation, individual goals must be displaced with greater priority. Sometimes, organization also displaces some goals to address the individual goals. For instance, organizations nowadays adapt HR development goal.
2. **Abstract goals** : If organizational goals are abstract, unclear and uncertain, employees as well as managers cannot be motivated. Thus, goals must be made simple, understandable, convincing and specific. For this purpose, goal displacement is essential. In actual practice when organizational goals cannot be translated into action plans, the problem of goal displacement may arise. For instance, organizational goal of ‘being best service provider’ is too vague. This is not clear in terms of quantity as well as time. In such case, employees do not believe they will be number one when and how. Such goals must be displaced.
3. **Attitude of employees** : Positive, optimistic and cooperative employees are key factors for organizational success. But, when employees are not cooperative and have negative attitude towards organizational goals, they don't contribute for organizational success. Such employees always give pressure fulfilling their goals rather than fulfilling the organizational goals. Organization should change their attitude. For this, organization should displace the goals.
4. **Goal substitution** : In organization, some goals need to be totally changed because of change in business environment. The substitution of goal also affects on organizational goals. The substitution of long term goal to short term or medium term goal, and vice-versa creates the situation of goal displacement.

PROBLEMS OF GOAL FORMULATION

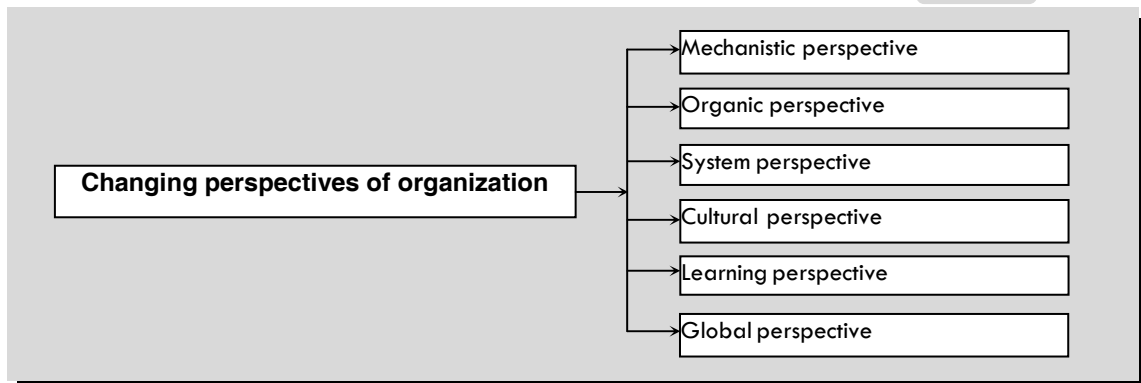
Goal formulation is an important but complex phenomenon. Decision maker should have proper knowledge regarding methods, techniques, principles and approaches of goals formation to make the goals effective. In real practice, managers may face several problems while setting goals. Some of the major problems of goal formulation are explained as follows :



1. **Unattainable goals :** A common problem of goal formulation is established unattainable goals. Unattainable goals decrease morality of member. Organizations try to formulate challenging goals to motivate employees. But challenging goals can be ideal and unattainable. Impossible goals create problems in organization. So, setting challenging but realistic and attainable goals is one of the major problems in goal formulation process.
2. **Inappropriate goals:** Unattainable goals are inappropriate goals. Over ambitious goals are inappropriate because of low chances of attaining them. Over emphasis on quality as well as quantity in goals make the goals inappropriate. If the overall goals are inappropriate, policies and strategies to attain such goals also become inappropriate and hence goals of different units, department, and branches become inappropriate. Departmental and unit goals should focus the mission goals of organization. Formulation of departmental and unit goals becomes difficult if the overall goals are inappropriate.
3. **Lack of intellectual capacity:** Goal formulation process is highly affected by intellectual capacity of individuals associated in this process. They should have sharp knowledge of PEST and SWOT analysis. They should be qualified in terms of statistical and mathematical tools and techniques. Accounting and financial knowledge are essential for goal formulation. In lack of such knowledge, decision makers set the goals at hunch. Goals formulated by such individuals become inappropriate and vague.
4. **Resource constraints:** Lack of resources becomes problem for goal formulation. Lack of resources decreases the confidence level at attaining the goal. Thus, decision makers formulate the goals under constraints or limitations. Goals in such situations cannot be challenging and optimistic. Thus, resource limitation creates problem in goal formulation.
5. **Over emphasis:** Management gives over emphasis on either quantitative part or on qualitative part. In some cases, decision makers must require to develop the quantitative standards like minimum number of unit production or quota for each employee. But it is required to remember that everything cannot be measured in quantity. Similarly, quality of goal should be clear and measureable. Vague and ambitious goal discourages employees.
6. **Environmental uncertainties:** Environmental changes are also major barriers in goal formulation process. Assessment of external environmental factor is complex and difficult. Rapid change on technology, high competition, uncertainty in political-legal environment, etc. cannot easily be estimated. Change in such factors change opportunity and threats of business organization. Thus, more volatile business environment also creates problem in goal formulation.
7. **Reluctant to change:** Rejecting change is very common attitude of human being. Managers and operating level employees may not easily accept the change in responsibility and technology intended by top level management. This creates challenge in goal setting as well as goal attainment.
8. **Inappropriate reward system:** There must be appropriate reward for employees on the basis of quality of goals. If organization follows inconsistent and inappropriate reward systems, it dissatisfies employees with best goals. Reward system should be transparent and should be based on performance level. Thus, reward system failing to reward the successful achiever of goal creates problem in goal formulation.
9. **Others:** There can be other problems in goal formulation, improper communication systems, lack of employee participation, focus on short term goals, lack of change management, reluctance to set goal and time constraints etc.

CHANGING PERSPECTIVE OF ORGANIZATION

The concept about organization has been changing over recent years. Organizational development is being one of the major areas of study from the very beginning of the twentieth century. Traditional views considered organizations as a closed system, operating in a predictable and stable environment but in modern thinking assumes that the organizations are complex entities operating in highly uncertain and unstable environment. The followings are some perspectives of organization :



1. **Mechanistic perspective:** This is the traditional view on organizations. Many classical theories of organization represent mechanistic view. Many management experts and economists like F.W Taylor, Henry Fayol, Adam Smith, and Moony contributed to develop mechanistic perspective of organization. Mechanistic perspective is characterized by following features:

- This perspective assumes organizations as machines.
- It assumes that organizations operate in a predictable and stable environment.
- According to this perspective, the prime goal of organization is to increase its efficiency through specialization and standardization of work.
- This perspective believes on fixed working hours, fixed production and maintenance schedule, financial control systems and quality control systems to make controlling effective.
- This perspective sets tall organizational structure with formal hierarchy of authority.
- This perspective sets sales targets to improve profitability.
- This perspective attempts to improve working environment for employee motivation and removing fatigue.
- This perspective believes on one best way of doing jobs and solving each problem.

Though this perspective is popular among many management practitioners, it has some drawbacks. They are:

- This perspective is suitable only in stable business environment which is almost impossible in current business world.
- This perspective always ignores human aspects in organization. Thus, employees cannot be motivated.
- This perspective assumes 'unique solution' for every problem. There cannot be unique solution to every problem in every organization.
- Rigid working hours, production schedule and control system makes the organization as a static organization which reduces the chance of goal attainment.

2. **Organic perspective :** This is the modern view on organization. It emphasizes on 'socio-psychological' aspects of human beings in organization. Managers are suggested to analyze sociological and psychological aspects of employees to motivate them. Main features of this approach are listed below :

- This perspective emphasizes on human interactions at work place.
- Social and psychological study of people helps increase organization effectiveness through their motivation.
- This perspective focuses on adjusting with situational change. Thus, change in business environment can be accepted and managed effectively.
- This perspective emphasizes on redesigning the jobs to empower workers.

- According to this perspective, organizational design is lean, flat and less hierarchical.
 - This perspective emphasizes on effective human resource management practices.
3. **System perspective:** This perspective views organization as a unified whole structure of various interacting and interrelated parts. Only the whole composition becomes able to achieve predetermined goals. It is assumed that all systems are composed of five basic elements i.e. input, processing, output, feedback and environment. According to this perspective, organization system should interact within open system i.e. functions of organization should interact with external environmental factors. This perspective focuses on 'combined synergy' of these five elements to achieve pre-determined goals. Major features of this perspective are summarized below :
- Organizations operate in open system. So, each organization should interact with environmental forces. Organizations grab the business opportunities as well as face threats from environment.
 - Every system has certain boundary. Such boundary provides the limitation to the organization.
 - Each element of system is goal oriented. The combined effect i.e. synergy of the element provides greater result than just the arithmetic sum of output of each element individually.
 - Every system has interrelated sub-systems. For example, within input there can be several systems which are sub-systems for whole system.
 - Feedback provides information regarding the work in progress as well as quality of output. This helps adjust on the system to attain better result.
 - Its main focus is to take the synergic benefits. Synergy here means the whole is always greater than the sum of its parts i.e. $2+2 > 4$.
4. **Cultural perspective:** Every organization has certain patterns or norms of behaviour. Organizations formulate certain shared values which are collectively termed as organizational culture. Cultural perspective of organization stresses on the organizational culture to define what is acceptable and unacceptable in organizations in dealing and doing the things. These beliefs guide the employee's behaviour at organizational work setup. Key features of cultural perspective are summarized below :
- This perspective focuses on mutual interest of management and employees for organizational culture. This helps develop positive effect in organizational performance.
 - This perspective is 'people focused'. Thus, mutual understanding, respect and collective efforts are available in the organization.
 - This perspective assumes that work autonomy to employees at their work area increases the productivity.
 - This perspective emphasizes open and two way communication.
 - Performance based reward system is focused.
 - This perspective believes that culture guides the behaviour and performance of employees at job.
5. **Learning perspective :** This perspective views organization as a learning system. Modern organizations should be knowledge based. They need to update knowledge continuously. For this, each member in the organization must be learner. According to this perspective, each organization for continuous uplift, must search new methods and ideas to maintain the learning environment. Each member should share and gain knowledge openly. Organization must maintain the knowledge of employees and should encourage for creativity. Main features of this perspective are summarized as below :
- Organizational members share ideas and experiences to increase the productivity and organizational effectiveness.
 - This perspective focuses on analysis of environment on regular basis which enables learning faster than competitors.

- This perspective suggests on flexible organizational design. This makes organization as boundaryless.
 - This perspective emphasizes on teamwork to improve organizational effectiveness.
 - Employees work on freelancer basis. They can work for different organizations in different times.
 - This perspective forces on knowledge management in the organization.
6. **Global perspective:** This perspective views organization as boundaryless business entity. Global organization produces and sells its product across many countries. Free flow of resources is encouraged. Government intervention is assumed to be decreased. Organization can use standardized technology to produce quality goods in cheap price. Competition is based on quality, cost and brands. There can be many branches and units in several countries. Such organization creates a global image. Global organization can use different methods for globalization. Global organization thinks globally and works locally. It uses centralized strategic planning and control but decentralized operating decision depending on the alliances made with the host country. Global organization perspective is characterized with following features:
- This perspective allows organization to operate globally.
 - This perspective believes on standardized technology and methods to increase organizational efficiency.
 - This perspective advocates on free flow of goods, information, technology, capital, etc. throughout the globe.
 - This perspective believes on creation of global image.
 - This perspective agrees global competition in terms of shape, size, price, quality, technology, etc.



SUMMARY OF LEARNING OBJECTIVES

- ❑ **Organization :** Organization is the form of human association for the attainment of common goals. On the basis of number of individual associated in organizations and volume of transactions made by organizations, organizations can be large or small. Organizations set fixed relationship between individual with certain division of responsibilities and authority. Authority establishes leadership which is obliged to fix the guidelines and procedures to attain common goals. Organizations conduct certain activities to attain the predetermined goals in dynamic environment.
- ❑ **Characteristics of Organization**
 - Social interaction of people
 - Deliberate structure
 - Division of work
 - Continuity
 - High morale
 - Common goals
 - Coordinated activities
 - Environmental influence
 - Unity of command
 - Flexibility
- ❑ **Organizational goal :** An organizational goal is desired point or destination toward which organizational activities are focused. Organizational goal is the basis or reason of existence of any organization. Goal provides direction to the organization so that all the activities will be organized and controlled. Goal is future destiny where the organization wants to reach. It is the source for inspiration and motivation to all people associated with it.
- ❑ **Nature of organizational goal**
 - Reflect purpose of existence
 - Multiple goals at a time
 - Time frame
 - Future oriented
 - Goal hierarchy

- ❑ **Purpose of organizational goals**
 - For source of guidance
 - For facilitate planning
 - For source of motivation
 - For effective evaluation and control
- ❑ **Types of Organizational Goals :** Goals, in general can be classified on the basis of level of organization and time horizon which are explained below :
 - A. Classification on the basis of level of Organization**
 - i. Mission goal ii. Strategic goal iii. Tactical goal iv. Operational goals
 - B. Classification on the basis of time horizon**
 - i. Long term goals ii. Intermediate term goals iii. Short term goals
- ❑ **Features of Effective Organizational Goals**
 - **Specific:** The goals must be stated clearly. They should not be vague and over ambiguous.
 - **Measurable:** As far as possible, the organizational goals should be measurable quantitatively. This feature of goals helps to evaluate employees' performance.
 - **Acceptable and Attainable:** Organizational goals should be accepted by all related parties of that organization. They should be feasible.
 - **Realistic :** Goals should be realistic. Impossible targets, end results and activities make goals unrealistic. Such goals cannot be accepted to the stakeholders.
 - **Time :** Every goal must have a specific time frame for its achievements. Time must be allocated to complete a particular goal.
- ❑ **Goals Formation Process**
 - 1. Environmental Scanning
 - 2. Formation of overall goals
 - 3. Formation of specific goals
- ❑ **Factors affecting goal formulation process**
 - Nature and size of organization
 - Level of participation
 - Organizational culture
 - Environmental forces
 - Attitude of higher management
 - Efficiency of managers
- ❑ **Goals formation approaches**
 - 1. Top-Down approach
 - 2. Bottom-up approach
 - 3. Management by objectives (MBO)
- ❑ **Goal succession:** If organizational goals are changed intentionally to adopt in changing environment, this process is called goal succession. Goal succession is done in case of achievements of predetermined organizational goals, change in business environment and unachievable goals.
- ❑ **Goal displacement:** Goal displacement refers to the unintended or forceful change in organizational goal. Goal displacement is done in case of goal conflict, abstract goals, negative attitude of employees and goal substitution.
- ❑ **Problems of Goal formulation**
 - Unattainable goals
 - Inappropriate goal
 - Lack of intellectual capacity
 - Resource constraints
 - Over emphasis
 - Environmental uncertainties
 - Reluctance to change
 - Inappropriate reward system
 - others
- ❑ **Changing Perspective of Organization**
 - 1. Mechanistic perspective
 - 2. Organic perspective
 - 3. System perspective
 - 4. Cultural perspective
 - 5. Learning perspective
 - 6. Global perspective

EXERCISE

Brief Answer Questions

1. Define organization with any two characteristics.
2. What is meant by organizational goals? Explain.
3. What different types of organizational goals can be formulated in organization? State them.
4. State important characteristics of effective organizational goals.
5. Goals must be SMART. Explain its meaning.
6. How goals are formulated under 'Management by Objective' Approach? Explain.
7. Define the concept of goal succession with suitable example.
8. What is meant by goal displacement? Explain with example.
9. State any four problems of goal formulation.
10. What changing perspectives of organization are common nowadays in management? State them.

Descriptive Answer Questions

11. Introduce organization. Explain its main features.
12. What are organizational goals? What steps are followed in the goal formulation process? Explain in brief.
13. What is meant by goal displacement? Give Examples.
14. Define goal succession. Explain goal formulation process in modern organizations.
15. Define organization. How organizational goals are formulated? Explain the process.
16. Define organizational goals. Explain the process of goal formulation.
17. What is meant by goal displacement? Describe the nature of organizational goals.
18. What is goal formulation? Explain the problems encountered in goal formulation process. Explain.
19. What are the characteristics of an organization? Explain the different types of organizations in practice.
20. Why goal formulation is important for the organization? Explain various problems of goal formulation.
21. Explain the goal formulation process and its problems.
22. Explain organizational goals. Describe different types of organizational goals.
23. Explain various features of effective organizational goals.
24. Briefly explain different approaches to goal formulation.
25. What is meant by goal succession? Explain different reasons for goal succession.
26. Explain the changing perspectives on organization in brief.

Analytical Answer Question

27. Define organizational goals. Explain the steps involved in goal formulation process. Also explain the approaches to goal formulation.
28. "Organization should perform its activities within changing organizational environment." In light of above statement, explain the concept of goal succession in organization with examples. Also, explain various reasons for goal succession.
29. The approaches and management styles are being changed in modern organization. Explain the changing perspectives on management.

CASE

Lovely Gift Gallery was established in 2015 by Sabina with capital investment of Rs. 8 lakhs after completing graduation in BBS. It is located in one of the prime areas, Samakhushi, Kathmandu. This area is growing fast in Kathmandu in terms of business and residence around the sub-urban area. Sales of the Gallery were quite good in the first three years but started decreasing its sales from the very beginning of 2019. Two similar shops started nearby at the mid of 2018 with more capital and people with better managerial skills. Recent research reports show that the gift trend is increasing in Kathmandu irrespective of age, gender and even the profession.

Sabina used to purchase the product from local supplier while other new sellers purchase product directly from China. As the sales of Lovely are gradually decreasing, cost of sales is increasing, Sabina is in dilemma whether to sell the Gift Gallery or to diversify in terms of goods and service. In this regard, provide the best solution on each of Sabina as management expert.

Questions:

1. For the case, what organizational goals do you suggest? Why?
2. Based on the case, what problems do you find?
3. Explain the role of manager in the case to solve the problems.

