
UNIT 1 ORGANISATIONAL OVERVIEW

Structure	Page No.
1.0 Introduction	5
1.1 Objectives	5
1.2 Organisation and its Types	5
1.3 Organisational Structure	7
1.4 Organisational Characteristics	9
1.5 Organisational Functions	11
1.6 Life Cycle of an Organisation	15
1.7 Vertical and Horizontal Organisations	18
1.8 Summary	23
1.9 Solutions / Answers	23
1.10 Further Readings/References	25

1.0 INTRODUCTION

Modern organisations are totally and irreversibly dependent on information systems in virtually every functional area. Information systems are a core enabling technology in sectors such as business, manufacturing, communications, education, health care, and government, to name just a few. This growing dependence brings fresh demands for more efficient and timely development of ever more complex systems that must be complete and correct, and that must be capable of evolution to meet changing requirements. Information and telecommunication technologies (IT) play crucial roles in the organisation and management of global businesses. In some cases information systems are enabling fundamental shifts in the structure of global markets. Recognising the importance of the link between organisations, management and information systems, all aspects of organisations are being covered in this unit while management and information systems will be covered in subsequent units.

In this unit, you will be made familiar with the type of organisations and the key factors involved in the design of the organisation structures. Merits and demerits of the various organisations structures will also be discussed. You will be provided insight to the functioning and characteristics of the organisation as well as to the various stages of existence and health of the organisation.

1.1 OBJECTIVES

After going through this unit, you should be able to:

- define the organisation and its types;
- understand the principals of organisation structure design;
- understand the common and unique characteristics of the organisations;
- understand the functions and life cycle of an organisation, and
- appreciate the merits and demerits of tall and vertical organisation structures.

1.2 ORGANISATION AND ITS TYPES

The term **organisation** has been defined in several ways. An *Organisation* can be defined as a stable, formal social structure that uses resources and produces them to



produce output. This output could be a physical product or service.

Leavitt (1962) defined *Organisation* as a specific configuration of structure, people, task and techniques. *Structure* describes the form of departments, hierarchy and committees. It influences the organisation's efficiency and effectiveness. *People* refer to the skills, attitudes and social interaction of the members of the organisation. *Task* refers to the goals of the individual and the organisation. *Techniques* refer to the methodical approach used to perform tasks. Organisational structure thus refers to the institutional arrangements and mechanisms for mobilising human, physical, financial and information resources at all levels of the system.

Organisation is also defined as a system incorporating a set of sub-systems (Katz and Kahn, 1978). These sub-systems are related group of activities, which are performed to meet the objectives of the organisation.

Numerous theorists have viewed organisation differently. However, all definitions usually contain five common characteristics:

- Composed of individuals and groups of individuals;
- Oriented towards achieving common goals;
- Differential functions;
- Intended rational coordination, and
- Continuity through time.

Organisations at a macro level can be divided in three *types*

- Extraction,
- Manufacturing including Construction, and
- Services.

These three types have distinct features. Extraction organisations produce goods by extracting them from the earth. Examples of such organisations are Agriculture, Mining, Oil and Gas exploration and producing companies. The manufacturing organisations produce goods by conversion or by processing of one type of goods designated as raw materials into other type of goods designated as finished goods. Examples of this type are Car manufacturing, Fertilizer manufacturing, pharmaceutical and drug manufacturing companies etc. The service organisations do not produce any tangible goods but produce services only. Services are intangible items having no shape or colour. Banking, Insurance, Transportation, Universities, Hospitals, Management Consultancy, Legal Firms etc. are example of these types of organisations. These three types of organisations have quite distinct structure, characteristics and functions.

Within each of the above three macro level classification for Types of organisations, further classification is required to be based on the **Industries** for example, Engineering Industry, Chemical Industry, Food Industry, Banking and Finance etc. Each Industry provides its own environment, technologies, skill sets, specialisation, culture and business processes to the organisations in its ambit. *Table 1* shows three basic types of organisations and various industries covered in these.

It is interesting to note that sometimes *three types* of organisations may be part of a single *Industry* and may form one organisation. Steel Authority of India is one such example, which deals with not only mining and manufacturing but also trading of the product manufactured.



Table 1: Summary of Organisation Types and Industries

Sl.No.	Type of Organisation	Sl.No.	Type of Organisation
1.0	<u>Extraction</u>	3.4	Finance and Insurance
1.1	Agriculture	3.5	Wholesale Trade
1.2	Mining (including Oil & Gas)	3.6	Retail trade
2.0	<u>Manufacturing & Construction</u>	3.7	Information Technology
2.1	Process / Chemical	3.8	Health & Welfare
2.2	Engineering	3.9	Education
2.3	House Building	3.10	Real Estate
3.0	<u>Services</u>	3.11	Sports and Recreation
3.1	Transport	3.12	Travel & Tourism
3.2	Communication	3.13	Social
3.3	Government (Central & State)	3.14	Others

1.3 ORGANISATIONAL STRUCTURE

An *organisational structure* defines how job tasks are formally divided, grouped and coordinated. It defines what are the organisational components (units), their relationships and hierarchy. It portrays where formal authority and power are located and provides a “home” and identity for employees. The knowledge about organisation structure answers to:

- Who goes where?
- What do they do?
- What are the positions and how are they grouped?
- What is the reporting sequence?
- What is each person, and each unit, responsible for?
- How does authority/accountability flow?

Structure is thus an integral component of the organisation. It defines the arrangement and interrelationship of component parts and positions in an organisation. It provides guidelines on:

- Division of work into activities;
- Linkage between different functions;
- Hierarchy;
- Authority structure;
- Authority relationships, and
- Coordination with the environment.

Organisational structure may differ within the same organisation according to the particular requirements.

For designing an organisational structure, six key elements are required. These are:

- Work Specialisation:** Historically the underlying principal was that work could be performed more efficiently if employees are allowed to specialize. Today we use the term *work specialisation* or division of labour, to describe the degree to which tasks in the organisation are subdivided into separate jobs.
- Departmentalisation:** Once the jobs have been divided through work specialisation, these need to be grouped together so that common tasks can be coordinated. The basis by which jobs are grouped together is called *departmentalisation*. One of the most popular ways of forming such groups is by functions like marketing, production, and finance etc.



- c) **Chain of command:** The *chain of command* is an unbroken line of authority that extends from the top to lowest level and clarifies who reports to whom. It answers question for employees such as “To whom do I go if I have a problem?” and “To whom I am responsible?”
- d) **Span of control:** How many employees can a manager efficiently and effectively direct? This question of span of control is important because to a large degree, it determines the number of levels and managers an organisation has. All things being equal, the wider or larger the span, the more efficient, is the organisation.
- e) **Centralisation and Decentralisation:** The term centralisation refers to the degree to which decision-making is concentrated to a single point in the organisation. The concept includes only formal authority. Typically, if the top management makes all the key decisions, the organisation is termed as *centralised*. In contrast, if bulk of the decisions is allowed to be taken at the lower level, the organisation is termed as *decentralised*.
- f) **Formalisation:** *Formalisation* refers to the degree to which jobs within the organisation are standardised. In case jobs are highly formalised, employees will have less freedom or discretion to carry out the jobs, but the jobs will have explicit methods and procedures to complete it.

Check Your Progress 1

1) State True or False.

- (i) Indian Oil Corporation is an organisation of extraction type. True ☐ False ☐
- (ii) Oil and Natural Gas Commission (ONGC) can be classified as manufacturing organisation. True ☐ False ☐
- (iii) Organisation structure is an integral component of the organisation. True ☐ False ☐
- (iv) The chain of command is a broken line of authority that extends from the top to lowest level and clarifies who reports to whom. True ☐ False ☐
- (v) Formalisation refers to the degree to which jobs within the organisation are standardised. True ☐ False ☐

2) Answer the following:

- (i) What are the types of organisations at macro level? What is the distinctive feature for each of these types?

- (ii) What are the six key elements required for designing an organizational structure?

- (iii) How ‘Centralized Organisations’ are different from ‘Decentralized Organizations’? Give examples of each.



1.4 ORGANISATIONAL CHARACTERISTICS

The operations of nearly all organizations — from the multinational corporation to a newly opened small set-up — are based on *division of labour*, a *decision-making structure*; and *rules and policies* which are referred as common **organisational characteristics**. The degrees of formality with which these aspects of business are approached vary tremendously within the business world, but these characteristics are inherent in any business enterprise that utilises the talents of more than one person.

Organisations practice *division of labour* both vertically and horizontally. Vertical division includes three basic levels — top, middle, and bottom. The main functions of top-managers is to draw strategic plans which may include long-term and short-term goals and also to monitor the current business with the help of middle-level managers. Middle-level managers convert the strategic plan set by top level managers into action plan and monitor day-to-day activities of lower level managers. Lower level managers act as per the action plans defined by the middle level managers and perform the specific activities as assigned to them.

Organisations also divide labour horizontally by defining task groups, or departments, and assigning workers with applicable skills to those groups. Line units perform the basic functions of the business, while staff units support line units with expertise and services. In general, line units focus on supply, production, and distribution, while staff units deal mostly with internal operations and controls or public relations efforts.

Decision-making structures, the second basic organisational characteristic, are used to organise authority. These structures vary from operation to operation in their degree of centralisation and decentralisation. Centralised decision structures are referred to as “tall” organisations because important decisions usually emanate from a high level and are passed down through several channels until they reach the lower end of the hierarchy. Conversely, flat organisations, which have decentralised decision-making structures, employ only a few hierarchical levels. Such organisations are typically guided by a management philosophy that is favourably disposed toward some form of employee empowerment and individual autonomy.

A formalised system of *rules and policies* is the third standard organisational characteristic. Rules, policies, and procedures serve as templates of managerial guidance in all sectors of organisational production and behaviour. They may document the most efficient means of accomplishing a task or provide standards for rewarding workers. Formalised rules provide managers with more time to spend on other problems and opportunities and help ensure that an organisation’s various subsystems are working in concert. Poorly implemented rules, of course, can actually have a negative impact on business efforts to produce goods or services in a profitable or satisfactory manner.

Thus, organisations can be categorised as informal or formal, depending on the degree of formalisation of rules within their structures. In formal organisations, say researchers, management has determined that a comparatively impersonal relationship between individuals and the company for which they work is viewed as the best environment for achieving organisational goals. Subordinates have less influence over the process in which they participate, with their duties more clearly defined.

Informal organisations, on the other hand, are less likely to adopt or adhere to a significant code of written rules or policies. Instead, individuals are more likely to adopt patterns of behaviour that are influenced by a number of social and personal factors. Changes in the organisation are less often the result of authoritative dictate and more often an outcome of collective agreement by members. Informal



organisations tend to be more flexible and more reactive to outside influences. But some critics contend that such arrangements may also diminish the ability of top managers to effect rapid change.

Each organisation produces some *output* which may be physical goods or services by use of certain inputs / resource. *Resources* may be one or combination of men, material, machine and finance etc. *Table 2* gives the list of common characteristics of organisation.

Table 2: Summary of Common and Unique Characteristics of Organisation

Common Characteristics	Unique Characteristics
Formal Structure Principal of Division of labour Standard Operating Procedures Decision Making Process Use of Resources (Men, Machine, Material etc.) Output	Organisational Type Environment, Goals, Power Size of the Organisation Locations Involved Functions & Business Processes Technology

The two organisations are not the same. Organisations differ greatly in type, size, function, environment, technology and business processes etc. Such characteristics, which are unique for each organisation, are listed in *Table 2 Organisation Types* has already been discussed Section 1.2.

Organisations reside in *Environment* from which they draw resources and to which they provide goods or services. The effect of these environmental factors which may include stockholders, labour unions, government agencies, competitors, financial institutions, suppliers and customers (*Figure 1*). These factors change much faster than the organisations. For the sake of survival and profitability organisations / management have to cope and adjust to these factors and information system of the organisation plays a vital role in it. Depending upon the type of organisation and industry, each organisation has its own environment to take care of.

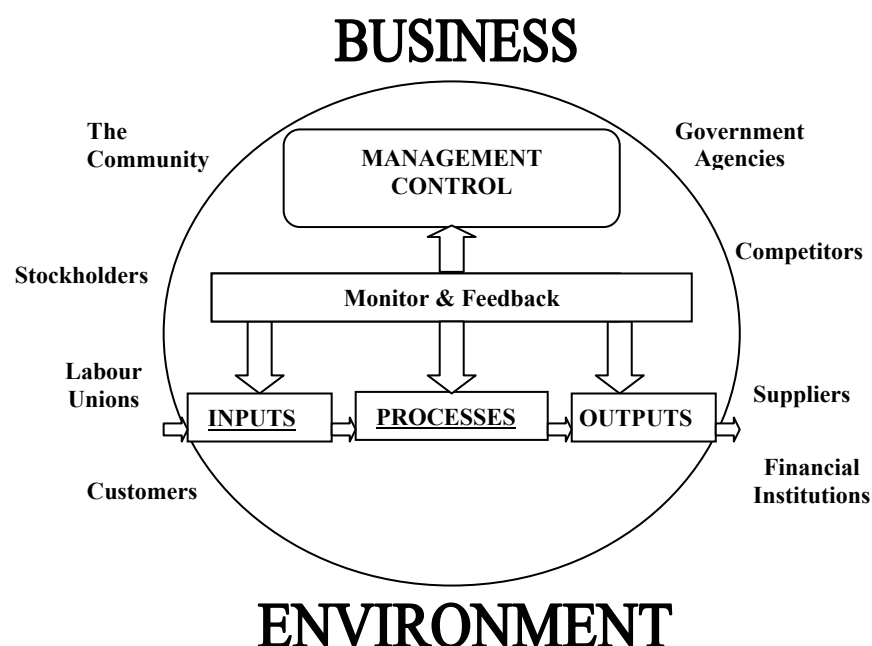


Figure 1: Organisation and environment



Environmental influences that affect the organisations can be categorised as either specific or general. The specific environment refers to the network of suppliers, distributors, government agencies, and competitors with which a business enterprise interacts. The general environment encompasses four influences that emanate from the geographic area in which the organisation operates. These are:

- *Cultural values*, which shape views about ethics and determine the relative importance of various issues.
- *Economic conditions*, which include economic upswings, recessions, regional unemployment, and many other regional factors that affect a company's ability to grow and prosper. Economic influences may also partially dictate an organisation's role in the economy.
- *Legal/political environment*, which effectively helps to allocate power within a society and to enforce laws. The legal and political systems in which an organisation operates can play a key role in determining the long-term stability and security of the organisation's future. These systems are responsible for creating a fertile environment for the business community, but they are also responsible for ensuring — via regulations pertaining to operation and taxation — that the needs of the larger community are addressed.
- *Quality of education*, which is an important factor in high technology and other industries that require an educated work force. Businesses will be better able to fill such positions if they operate in geographic regions that feature a strong education system.

Organisations differ, in their ultimate *Goals* and the type of *Power* used to achieve them. Some organisations have coercive goals, for example prisons; others have utilitarian goals, for example, business organisations. Still others have normative goals, for example, universities and religious groups.

Size and number of locations involved for the organisations result in different organisational shape, structures and procedures. *Business functions* and *process* have been discussed in detail in Unit 2.3. *Technology* adopted by the organisation has great bearing on work force and tasks. Newer Technology adopted by the competitors may put strains on any organisation. The nature of *Leadership* differs greatly from one organisation to another — some organisations may be more democratic or authoritative than others. Some organisations perform primary *Tasks* that could be reduced to formal rules that require little judgment like in case of manufacturing organisations, while consultancy firms have to perform non-routine tasks.

As can be seen in *Table 2*, list of unique characteristics is longer than the common characteristics. *It stands to reason that information systems will have different impacts on different type of organisations even if the technology adopted is same.* Only by close analysis and the appropriate design of the system suiting to the specific needs of the organisation will result in optimum results.

1.5 ORGANISATIONAL FUNCTIONS

Let us look at a organisations whose goal is to generate certain services and/or to produce goods (factories, service enterprises, etc.). The **organisational functions** of such organisations is **business**. Now let us look at the organisations of which goal is to bring about certain effects in its surrounding world (e.g., authorities, police, political parties, interest groups, trade unions, etc.). *Business* is definitely not the function of these organisations. Then there are organisations whose goal is to change individuals (e.g., schools, universities, hospitals, prisons). These types of organisations are also known as non-profit-organisations and business is not the function of these organisations also. We may notice that for authorities, prison and police the function is



Bureaucracy. We may also notice that for business organisations and for bureaucratic set ups constitution, management policies, procedures and system are different to quite some extent while in the same functionality group these may be similar. There are several different Functions for various organisations. It is difficult to list down all the functions in this changing and developing scenario, however, we can look at some important organisational functions described below:

a) Business organisations is an area of law that covers the broad array of rules governing the formation and operation of different kinds of entities by which individuals can organise to do business. The term is also used to describe the entities themselves. A variety of other terms are used fairly interchangeably to describe this area, including or **business associations, business forms, and business entities.** Reference to a “business” entity usually (though not always) indicates that entity’s status as for-profit, as opposed to non-profit. In common law countries today, the most commonly addressed forms are:

- The sole proprietorship — this is, however, a single-person operation, and therefore not truly any kind of “organisation”.
- The partnership, sometimes called a “general partnership”.
- The limited partnership (LP).
- The limited liability partnership (LLP).
- The corporation.
- The limited liability company (LLC).

Less commonly used business forms include the limited liability limited partnership (LLLP), and the limited company (LC). Other types of business organisations, such as cooperatives, credit unions and publicly owned enterprises, can be established with purposes that parallel, supersede, or even replace the profit maximisation mandate of business corporations. There are large numbers of organisations in each of these forms of business.

b) Bureaucracy is a concept in sociology and political science referring to the way that the administrative execution and enforcement of legal rules is socially organised. This office organisation is characterised by standardised procedure, formal division of responsibility, hierarchy, and impersonal relationships.

Examples of everyday bureaucracies include governments, armed forces, corporations, hospitals, courts, ministries and schools.

c) Charity is the function of the *charitable trust*, which is organised to serve private or public charitable purposes. Charities may take the form of charitable trusts, companies or unincorporated associations.

Because of the benefits provided by charitable trusts, they are subject to certain benefits under trust law. For example, transfers of property to a charitable trust are usually exempt from the rule against perpetuities, which would otherwise operate to void a transfer made after a certain period. Furthermore, charitable trusts come under the doctrine of cypres, which holds that if the charity designated in the trust ceases to exist or otherwise becomes unable to carry out the purpose of the trust, and then the trust property can be transferred to another charity with a similar purpose.

d) International Cooperation or Control is the function for the organisation of international scope or character. There are two main types of international organisations:



- International intergovernmental organisations (IGOs) whose members are sovereign states or other intergovernmental organisations (like, the European Union), and
- Non-governmental organisations (NGOs), which are private organisations.

Generally and correctly used, the term international organisation is used to mean international governmental organisations only. Examples of such organisations are:

- United Nations, its specialised agencies, and associated organisations
- INTERPOL
- International Hydrographic Organisation
- World Trade Organisation.
- Universal Postal Union.

e) Mutual Cooperation is the function for the cooperative organisation or *society* (which is often, but not always, a company or business) based on the principle of mutuality. A mutual organisation or society is often simply referred to as *a mutual*.

A mutual exists with the purpose of raising funds (or money), from its membership or customers (collectively called its *members*), which can then be used to provide common services to all members of the organisation or society. A mutual is therefore owned by, and run for the benefit of its members — it has no external shareholders to pay in the form of dividends, and as such does not usually seek to maximize and make large profits or capital gains. Mutuals exist for the members to benefit from the services they provide. Profits made will usually be re-invested in the mutual for the benefit of the members, although some profit may also be necessary in the case of mutual to sustain or grow the organisation, and to make sure it remains safe and secure.

Various types of financial institutions around the world are mutuals, and examples include:

- Building societies
- Credit unions
- Friendly societies
- (Mutual) Insurance/Assurance companies
- Savings and loan associations
- Mutual savings bank
- Mutual bank.

Modern mutual financial institutions usually offer services very similar (if not the same) to those of a bank, except a mutual may pay higher interest rates on savings and deposit accounts, charge lower interest rates on mortgages and loans, have fewer or lower fees and charges on the services or products it offers, and the members who save and borrow with the mutual ultimately own the business.

f) Social, cultural, legal, and environmental advocacy functions from the goal of the *Non-governmental organisations (NGOs)*. Such organisations are not part of a government and are not founded by states. NGOs are therefore typically independent of governments. Although the definition can technically include for-profit corporations, the term is generally restricted to social, cultural, legal, and environmental advocacy groups having goals that are primarily non-commercial. NGOs are usually non-profit organisations that gain at least a portion of their funding from private sources.

Because the label ‘NGO’ is considered too broad by some, as it might cover anything that is non-governmental, many NGOs now prefer the term private voluntary organisation (PVO) or Private Development Organisation (PDO).



A 1995 UN report on global governance estimated that there are nearly 29,000 international NGOs. National numbers are even higher: The United States has an estimated 2 million NGOs, most of them formed in the past 30 years. Russia has 65,000 NGOs. India has 2 million NGOs. Dozens are created daily. In Kenya alone, some 240 NGOs come into existence every year.

g) Collaborative Networks Function is the basis of a *Virtual Organisation*. A Virtual Organisation is any type of organisation that does not have a central geographical location and exists solely through telecommunication tools.

- A *Virtual Organisation* comprises a set of (legally) independent organisations that share resources and skills to achieve its mission / goal, but that is not limited to an alliance of profit enterprises. The interaction among members of the virtual organisation is mainly done through computer networks. A Virtual Organisation is a manifestation of Collaborative Networks.
- In business a Virtual Organisation is a firm that outsources the majority of its functions.

In grid computing, a *Virtual Organisation* is a group of individuals or institutions that share the computing resources of a “grid” for a common goal.

h) Pacifist functions that are pacifist principles of standing against war and aggression are promoted by the Pacifist organisation. Some organisations are concerned only with the removal of nuclear weapons from war although they may call for suspension of hostilities as well. Amongst other organisations are those which deal with other concerns but which have a strong pacific element. The examples of pacifist organisations are:

- Religious Society of Friends (Quakers)
- Mennonites
- Christian Peacemaker Teams
- Christian anarchism
- Fellowship of Reconciliation

Nuclear pacifist organisation:

- Pugwash
- CND

Organisations which cite pacifism as an aim:

- Green peace.

i) Collective function is promoted by a group of people who share or are motivated by at least one common issue or interest, or work together on a specific project(s) to achieve a common objective. Collectives are also characterized by attempts to share and exercise political and social power and to make decisions on a consensus-driven and egalitarian basis. Collectives differ from cooperatives in that they are not necessarily focused upon an economic benefit or saving (but can be that as well). A commune or intentional community, which may also be known as a “collective household”, is a group of people who live together in some kind of dwelling or residence, or in some other arrangement (eg., sharing land). Collective households may be organised for a specific purpose (eg., relating to business, parenting, or some other shared interest). Collective consciousness is a term created by French social theorist Émile Durkheim that describes how an entire community comes together to share similar values. The term collective is sometimes used to describe a species as a whole, for example the *human collective*.

Types of collectives:

- Art collectives
- Activist collectives

- Environment collectives
- Health collectives
- Law collectives
- Music collectives
- Newspaper collectives
- Research collectives.

Check Your Progress 2

1) State True or False.

- | | | | |
|-------|--|-------------------------------|--------------------------------|
| (i) | Organisations practice <i>division of labour</i> both vertically and horizontally. Vertical division includes five basic levels. | True <input type="checkbox"/> | False <input type="checkbox"/> |
| (ii) | Organisations change much be faster than the Environment. | True <input type="checkbox"/> | False <input type="checkbox"/> |
| (iii) | Same information systems will have same impacts on different type of organisations if the technology adopted is same. | True <input type="checkbox"/> | False <input type="checkbox"/> |
| (iv) | Collaborative Networks function is the basis of a Virtual Organisation. | True <input type="checkbox"/> | False <input type="checkbox"/> |
| (v) | Business, International Cooperation, and Mutual Cooperation are examples of functions of organisations. | True <input type="checkbox"/> | False <input type="checkbox"/> |

2) Answer the following:

- Indicate Four common and five unique characteristics of Organisation.
.....
.....
.....
- Give three examples (names) of each of the following functional organisations: Business, Bureaucracy, Charity, Mutual Cooperation, and International cooperation.
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.....
.....
- Give two examples of Hierarchical and Flat organisations.
.....
.....
.....
- Explain the role that the Environment plays on the Organisation.
.....
.....
.....

1.6 LIFE CYCLE OF AN ORGANISATION

Organisations go through different phases of growth. For sustained growth, it is important to understand what phase of the organisational life cycle one is in. Many will enter decline unless there are transformational leaders who can renew the organisation. Different experts argue on how many phases there are in an organisational life cycle, but the **Five** most acceptable and distinct stages, which are easy to remember, are:

- 1) Startup,
- 2) Growth. This is sometimes divided into an early growth phase (fast growth) and maturity phase (slow growth or no growth). However, maturity often leads to.
- 3) Decline. When in decline, an organisation will either undergo,
- 4) Renewal, and
- 5) Failure.



Each of these phases present different management and leadership challenges that one must deal with.

The Start-up Phase

This phase commences from the time an entrepreneur conceives the idea of a particular business and for giving shape to the business, a management group is formed and a business plan is written. Resources are deployed and the organisation is established. Start-up ends when business is declared open.

The Growth Phase

No organisation can remain stagnant for a long time as stagnancy for a long time leads to natural death for the organisation. So as a corollary to stagnancy, organisations to flourish must kick-start and grow. For entrepreneurs needing money to kick-start the business, the company goes into the growth phase once the investor writes the check. In the growth phase, one expects to see revenues climb, new services and products developed, more employees hired and so on. This growth phase has been divided into sub-phases of growth that is Childhood, Adolescence, Adulthood and Maturity. The management textbooks love to assume that sales grow each year. The reality is much different since a company can have both good and bad years depending on market conditions. Many companies have different types of programs relating to organisational development in place. Few actions, which need to be taken at each phase for better health of the organisation, are given in the following *Table 3*:

Table 3: Suggested Actions for Sustained Good Health of the Organization

Stage	Characteristics	Actions to Take
Start-Up Phase / Birth	An organisation is created and establishes its presence.	<ul style="list-style-type: none"> • Help develop the leadership skills of others within the organisation • Develop preliminary systems for the organisation
Growth Phase/ Childhood	An organisation begins to learn new skills and to build a solid, supportive organisational infrastructure.	<ul style="list-style-type: none"> • Invite and accept to nurture the organisational potential by more experienced leaders, organisations, and founders
Growth Phase/ Adolescence	An organisation expands the scope of its actions and learning as it goes.	<ul style="list-style-type: none"> • Experiment • Take on more difficult challenges • Take responsibility for action or inaction • Learn from and be mentored by those with more experience
Growth Phase/ Adulthood	An organisation assumes a greater level of responsibility.	<ul style="list-style-type: none"> • Take the lead on an issue even without significant credit • Take appropriate risks even if defeat is possible • Nurture and mentor organisations in their childhood and adolescence
Growth Phase/ Maturity	An organisation uses its legacy to strengthen the movement overall.	<ul style="list-style-type: none"> • Turn over responsibility to others • Share wisdom and experiences • Set an example for personal and organisational renewal
Renewal	An organisation resists the urge to stay comfortable.	<ul style="list-style-type: none"> • Develop a new strategic focus or new organisational leadership

The Decline Phase

In organisations that have been around for a few years, unless checked-in by the vigilant management complacency sets in or due to other reasons / dry rots as indicated below the organisation gets into the decline phase:

- Conflicting interests between various groups / departments, leading to decisions which are not in the best interest of the organisation;
- Poor team work;
- No strategic views or strategic views not being followed;
- Confusing roles and responsibilities;
- Repeated mistakes, no lesson learned from mistakes for correcting mistakes;
- Fire fighting at difficult times rather than long term corrective and preventive actions;
- Mistrust among various groups;
- Executive and employees driven by greed rather than inspiring vision;
- No respect for resources (time, money, men or machine).

Using the above definition, one finds a tremendous amount of corporate insanity out there. Management that expects next year to be better but doesn't know or is unwilling to change to get better results. This simple truth was shown in a 2003 study of 1900 professionals who help businesses in trouble.*

Table 4: Reasons For Decline

Too much Debt	28%
Inadequate Leadership	17%
Poor Planning	14%
Failure to Change	11%
Inexperienced Management	9%
Not Enough Revenue	8%

* **Source:** Buccino and Associates: Seton Hall University Stiffman School of Business, As reported in August 25, 2003, *Business Week*.

If one can detect the symptoms of decline early, one can more easily deal with it. Some of the more obvious signs being: declining sales relative to competitors, disappearing profit margins, and debt loads which continue to grow year after year. However, by the time the accountants figure out that the organisation is in trouble, it is often too late.

The Renewal Phase

Decline doesn't have to continue, however, external experts have focused on the importance of organisational development as a way of preventing decline or reducing its affects.

An interesting story from Aesop's *Fables* given below is worth remembering:

"A horse rider took the utmost pains with his charger. As long as the war lasted, he looked upon him as his fellow-helper in all emergencies and fed him carefully with hay and corn. But when the war was over, he only allowed him chaff to eat and made him carry heavy loads of wood, subjecting him to much slavish drudgery and ill-treatment. War was again proclaimed, however, and when the trumpet summoned him to his



standard, the soldier put on his charger its military trappings, and mounted, being clad in his heavy coat of mail. The horse fell down straightway under the weight, no longer equal to the burden, and said to his master, “You must now go to the war on foot, for you have transformed me from a horse into an ass; and how can you expect that I can again turn in a moment from an ass to a Horse?”

One way to reverse dry rot is through the use of training as a way of injecting new knowledge and skills. One can also put in place a rigorous program to change and transform organisation’s culture.

Failure

As many as 80% of business failures occur due to factors within the executive’s control. Even firms close to bankruptcy can overcome tremendous adversity to nurse themselves back to financial health. Lee Iacocca’s turnaround of the Chrysler Corporation is one shining example.

In some cases, failure means being acquired and merged into a larger organisation. In other cases, it occurs when an organisation elects or is forced into bankruptcy. This does not signify the organisation ceases to exist since it can limp along for many years by going in and out of bankruptcy court.

1.7 VERTICAL AND HORIZONTAL ORGANISATION

The structure of an organisation is the manner in which various sub-units are arranged and inter-related as discussed at Section 1.3. The organisation structure provides guidelines on hierarchy, line of authority and relationships, linkage between different functions and coordination with environment. Structure in an organisation has three important components:

- 1) *Complexity*, referring to the degree to which activities within the organisation are differentiated. This differentiation has three dimensions —
 - *Horizontal* differentiation refers to the degree of differentiation between units based on the orientation of members, the nature of tasks they perform and their education and training,
 - *Vertical* differentiation is characterised by the number of hierarchical levels in the organisation, and
 - *Spatial* differentiation is the degree to which the location of the organisation’s offices, facilities and personnel are geographically distributed.
- 2) *Formalisation* refers to the extent to which jobs within the organisation are specialised. The degree of formalisation can vary widely between and within organisations;
- 3) *Centralisation* refers to the degree to which decision-making is concentrated at one point in the organisation.

Now let us consider different types of organisation structures with merits and demerits in each of these types of structures.

The grouping of employees or departmentalisation in various types of organisation structures can be based on:

- By function or speciality

- By product line
- By customer / market segment
- By geographical area
- By work flow process
- Combination of the above.

Function Oriented (Vertical) Organisation Structures

A typical structure will look as shown in the Figure 2

The basic foundation of such organisations started from 20th century when there was lot of emphasis on specialisation during this industrial revolution era.

These basic underlying principals for such formation were:

- Specialization of labour
- Business processes were decomposed into narrower and narrower tasks
- Efforts were focused on improving the performance of those individual tasks
- Organisational units (functional departments) also reflected this narrow specialisation.

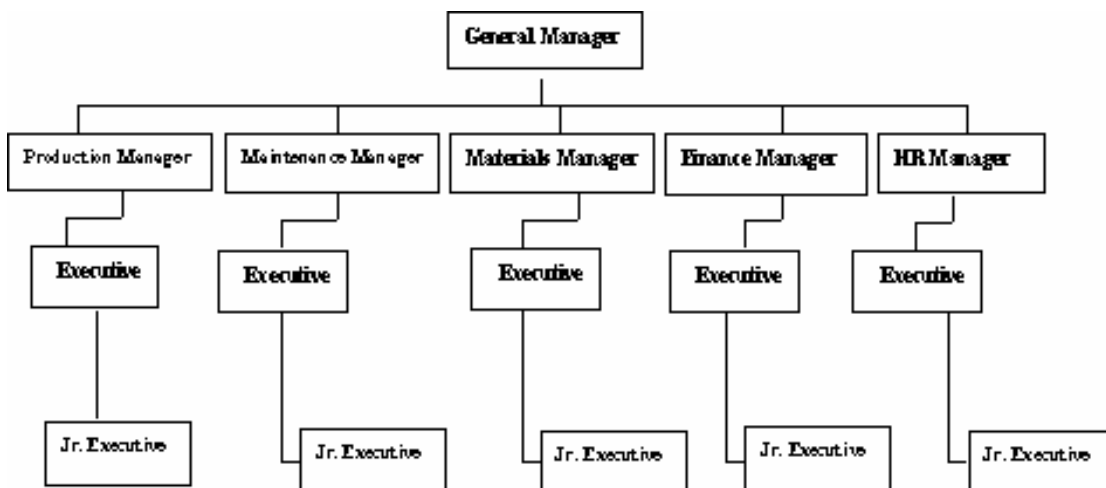


Figure 2: Function oriented organisation structure
(Vertical Organisation)

Tasks – and the organisations based on them – formed the basic building blocks of 20th century enterprises.

The shortcomings in this type of structure were:

- Internal focus on functional goals rather than outward-looking concentration on winning customers and delivering value.
- Loss of important information as transactions travel up and down the multiple levels and across the functional departments.
- Fragmentation of performance objectives brought about by a multitude of distinct and fragmented goals.
- Added expense involved in coordinating the overly fragmented work and departments.
- Stifling of creativity and initiative of workers at lower levels.
- Slow responsiveness to changes in the external environment and to customer issues.
- Loss of sight of the totality of the business processes.



Competition and further industrialisation brought the concept of **Product Oriented Organisations**, which were comparatively better in many respects. A typical product oriented organisation structure is shown in *Figure 3*.

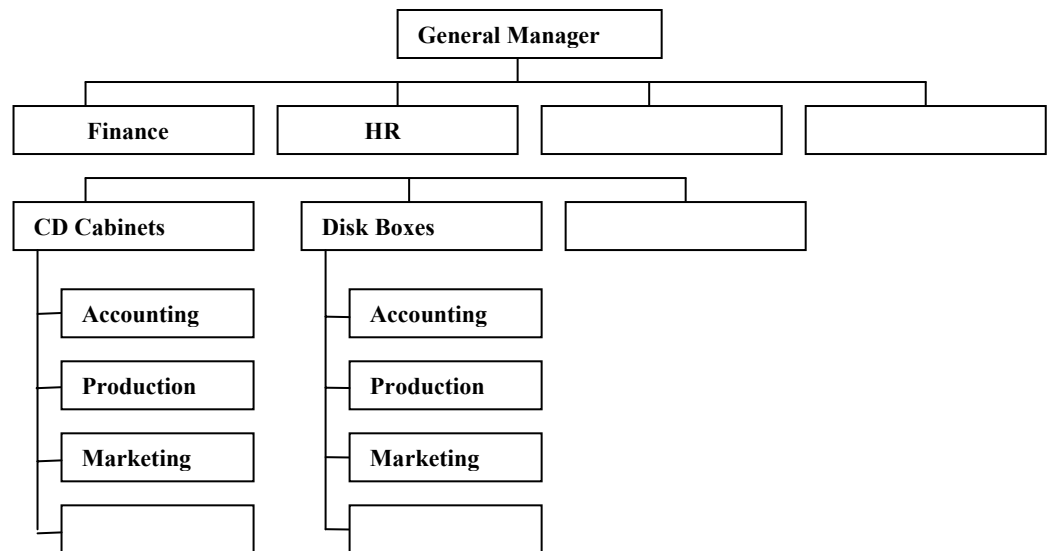


Figure 3: Product oriented organisation structure

Growth of the Organisation in vast areas made the management to operate the same organisation from multi locations. This brought forward the concept of **multi-localational / geographical based organisations**. A typical structure is shown in *Figure 4*.



Figure 4: Multi location/geographical based organisation structure

Process Oriented (Horizontal) Organisation Structures:

Before we discuss Process oriented organisation structure, let us understand what is 'process' and how it is different from a 'task'.

- A task is a defined unit of work, usually performed by one person or small group.
- A process is a related group of tasks that together create an outcome of value to a customer.
- Only when all the tasks are performed together as a wholistic process the value is created.
- When rewards are based on task performance, the total process performance will usually be sub-optimal.

A Process oriented organisation has to be based on core processes. The core processes comprise of:

- End-to-end work, information and material flows.
- Extends across a business (and even beyond the business boundaries) and drives the achievement of fundamental performance objectives to an organisation's strategy.
- Usually not more than 4 to 10 in a typical organisation, which also depends on the business strategy of the organisation.

Typical major (Core) Business Process in an organisation are:

- **Order Acquisition Process** transforms a sales potential into a firm order in hand.
- **Order Fulfillment Process** transforms an order into delivered goods, a satisfied customer, and the paid bill.
- **Product Development Process** transforms a customer need and/or an advanced concept into a manufacturable design that satisfies the value proposition.
- **New Business Development Process** transforms technological and conceptual advancements into new businesses.
- **Customer Support Process** transforms customer concerns and needs into value-adding solutions.

Major processes are divided into sub-processes, which are then describable in terms of basic tasks or activities. Common Characteristics of Horizontally Structured Organisations are:

- Core processes group employees according to the sets and scope of multiple skills needed to meet performance objectives.
- Teams constitute the fundamental units of the organisation and are largely self-supervised.
- Process owners are responsible for leading and managing the entire core processes.
- The primary focus is external rather than internal, emphasizing the delivery.

A typical process based organisation structure is shown below in *Figure 5*.

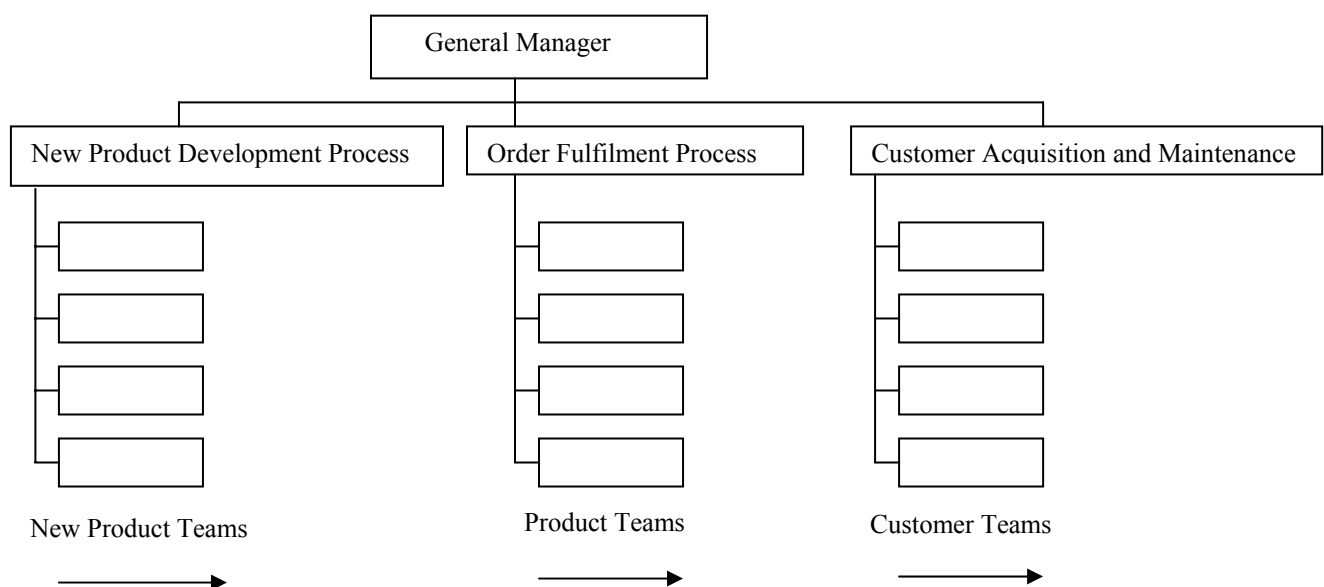


Figure 5: Process oriented organisation structure



Merits of an Process based Organisation Structure are:

- Eliminates the numerous handoffs that occur in functionally organised companies,
- Facilitates a tight alignment with what the customer wants,
- Highly compatible with the “lean paradigm”,
- Fewer levels of hierarchy, reduced “overhead” effort,
- Facilitates agility, rapid re-configuration, as external environment changes,
- Performance measures and incentives/rewards can be tied more directly to tangible, measurable work progress,
- Enhances morale.

Vertical vs. Horizontal Organisations

Process-complete departments will have shorter cycle times for the jobs *only* if their managers have taken steps to reduce the cycle time by cultivating a collective sense of responsibility. Means for fostering collective responsibility are:

- Structure jobs with overlapping responsibilities,
- Arrange work areas so that people can see each other’s work,
- Base incentives/rewards on group performance,
- Design procedures so that employees with different jobs are better able to collaborate.

Restructuring by process can lead to faster cycle times, greater customer satisfaction, and lower costs, but only if the organisation has a collaborative culture as stated above. But if companies are not willing to change their culture, they may be better off leaving functional departments intact.

Process oriented organisations are superior to *Functional organisations* for many situations, however, one size does not fit all in organisational focus. There are still many situations in which the classical vertical organisation is superior.

Check Your Progress 3

1) State True or False.

- | | |
|---|--|
| (i) Customer Support Process - transforms a sales potential into a firm order in hand. | True <input type="checkbox"/> False <input type="checkbox"/> |
| (ii) Product Development Process- transforms technological and conceptual advancements into new businesses. | True <input type="checkbox"/> False <input type="checkbox"/> |
| (iii) A Process oriented organisation has to be based on Core processes. | True <input type="checkbox"/> False <input type="checkbox"/> |
| (iv) Process based Organisation Structure facilitates a tight alignment with what the customer wants. | True <input type="checkbox"/> False <input type="checkbox"/> |
| (v) Process based Organisation Structure limits Enhancing of morale. | True <input type="checkbox"/> False <input type="checkbox"/> |

2) Answer the following:

- (i) What are the five most acceptable stages during organisational life cycle?

- (ii) What are the shortcomings in the Function Oriented (Vertical) type of organisational structure?



1.8 SUMMARY

This completes the discussion regarding organisations overview, the fundamentals and types of organisations as well as diversities and similarities in various organisations. These concepts are essential to be understood and addressed for information system design.

With the increase in competition and globalisation each organisation desires to carry out more and more of its functionality with use of Information technology to enhance productivity. Therefore, students are advised to read supplementary material covering case studies.

1.9 SOLUTIONS/ANSWERS

Check Your Progress 1

- 1) (i) False, (ii) False, (iii) True, (iv) False, (v) True
- 2) (i) At Macro level organisations have three types as indicated below along with their distinct features:
 - **Extraction organisations:** These organisations produce goods by extracting them from the earth.
 - **Manufacturing organisations:** These organisations produce goods by conversion or by processing of one type of goods designated as raw materials into other type of goods designated as finished goods.
 - **Service organisations** do not produce any tangible goods but produce services only. Services are intangible items having no shape or colour.
- (ii) The six key elements required for designing an organisational structure are:
 - Work Specialisation
 - Departmentalisation
 - Chain of command
 - Span of control
 - Centralisation and decentralisation
 - Formalisation

Check Your Progress 2

- 1) (i) False, (ii) False, (iii) False, (iv) True, (v) True.
- 2) (i) Four common features of organisations are:
 - Formal Structure,
 - Principle of Division of labour,
 - Standard Operating Procedures, and
 - Decision Making Process.

And five unique characteristics of organisation are:

- Organisational Type,
- Environment,
- Size of the Organisation,



- Locations Involved, and
- Business Processes.

- (ii) Three examples (names) of each of the following functional organizations are:

Business: Reliance Infotech, Maruti Udyog Ltd., Bharat Petroleum.

Bureaucracy: Government of Madhya Pradesh, Delhi Public School and Supreme Court of India.

Charity: Ford Foundation, Rajiv Foundation and Gandhi Memorial trust.

Mutual Cooperation: Unit Trust of India, Indian Farmers Fertilizers Corporation (IFFCO), and Industrial Cooperative Bank.

International Cooperation: United Nations, World Health Organisation, and World Trade Organisation.

Check Your Progress 3

- 1) (i) False, (ii) False, (iii) True, (iv) True (v) False
- 2) (i) The most acceptable five stages during organisational life cycle are:
 - (a) Startup / Birth
 - (b) Growth.
 - (c) Decline. When in decline, an organisation will either undergo,
 - (d) Renewal or
 - (e) Death / bankruptcy.
- (ii) The shortcomings in the Function Oriented (Vertical) type of organisational structure are:
 - Internal focus on functional goals rather than outward-looking concentration on winning customers and delivering value;
 - Loss of important information as transactions travel up and down the multiple levels and across the functional departments;
 - Fragmentation of performance objectives brought about by a multitude of distinct and fragmented goals;
 - Added expense involved in coordinating the overly fragmented work and departments;
 - Stifling of creativity and initiative of workers at lower levels;
 - Slow responsiveness to changes in the external environment and to customer issues;
 - Loss of sight of the totality of the business processes.

1.10 FURTHER READINGS/REFERENCES



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