PREFACE

In the last few years several foreign students came to study at University of Ljubljana. A certain number of them came to study at Faculty of Public Administration. They choose the subjects in which they are interested. Usually they stay at University of Ljubljana one or two semester. From my research field they especially take the subject Organization Theory, Modern Theory of Organization and Organizational Behavior.

The present work has been partially revised and updated textbook Theory of Organization course, which is taught at the Faculty of Administration of Ljubljana, and is intended primarily to foreign students coming to study at the Faculty of Administration of the Erasmus and when they choose this course.

These study material is a collection of my previous translated articles written in English for different occasions. All study materials and textbooks are written in Slovene language. Lectures and other student’s obligations are performed in Slovene language. The foreign students are no ably to follow the lectures in Slovenian language. According to our faculty rules we can organize lecture in English if there are a certain number of student on the list for individual subject. For that reason we must organize for them special courses in English. In the last two years I tried to solve that problem so that I prepared and carried out some lectures in English for the most important topics of the individual subjects. Each of the students had to prepare a special seminar work connected to the subject and made a presentation in front of all students in the special session. In the last two years I had some very intelligent, smart and active students. These students contributed to quality of our learning very much with their excellent seminar work and conducting discussion with other colleagues. They stimulated me to prepare a study material for the next generation for foreign students. That was the main reason that I decide to follow their wishes and put some effort to fulfill their suggestions. I wish and I hope that this endeavor will be paid off in the future.

Among these material are included some findings of the best seminar works from above mentioned foreign student. Special thanks go to them.

Substance represented by this work, is treated in twelfth main chapters, which each own more or less is a complete whole of certain aspects of organizational theory, it is possible to study each chapter separately from the others. The chapters are interlinked and set in the order so that they are in the early chapters the concepts of organizational theory that are the basis for understanding the material in the chapters below. Introductory interest is the first chapters. The central chapters are chapters on post-modern theories of organization.
Gist of the individual chapters is as follows:

The first chapter defines the notion of organization, the basic characteristics of more significant development period of the scientific organization and the content of individual organizational theories.

The second chapter presents the concept of business process reengineering.

The fourth chapter introduces some more important fields of organizational development.

The fifth chapter is a comprehensive outline of teambuilding within organization.

The sixth chapter is a comprehensive outline of models of quality management.

The seventh chapter presents the concept of innovative organization.

The eighth chapter presents the concept of 7-S model.

The ninth chapter is a comprehensive outline of organizational structures.

The tenth chapter is dealing with organizational model design.

The eleventh chapter presents the theory of 20 keys to workplace improvement.

The twelfth chapter presents the cluster theory.

The thirteenth chapter involves same aspect of organizational paradigm.

The fourteenth part is dealing on globalization.

I am aware that this study material concerning organizational theory is not completed. It means a first attempt written in English. I wish and I expect that further educational process will warn me on deficiencies of that study material. All suggestions for its improvement will be appreciate very much and thankful.

Ljubljana, January 2013

Prof. dr. Štefan Ivanko
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1 THE NOTION OF ORGANIZATION AND THE BASIC CHARACTERISTICS OF THE MORE SIGNIFICANT DEVELOPMENT PERIOD OF THE SCIENTIFIC ORGANIZATION

1.1 Different Views of the Organization

Organization is a relatively young science in comparison with the other scientific disciplines. In spite of its speeded development and the extensive organizational literature we are sorry to state that the notion or organization has not been, as yet, unified defined. According to the various authors organization has a very differing meaning. Probably there is no more discussible notion in the economic theory and practice of management that that of organization.

The causes of differing meaning of organization are numerous. And among them there are decisive those that organization is being treated, as well the organizing, by the people belonging to various occupations. The adherents of the individual professions use in organizing their special approaches understanding organization from their own professional point of view. For this reason a joint treating of organization by the adherents to the different professions at a professional level is difficult and almost impossible. To the adherents of technical professions, for instance, mean organization, most frequently, a formal process or a technique of combining processes, for lawyers a formation or juridical person, for sociologists an association of people or a social system, for economists a form of work of a certain manner, a level of organization and determined legal position, for a political scientists a basic unit of the asocial production, etc. As the authors belonging to different provinces start investigating only from their points of view there is produced the impression that there are a number of scientific disciplines in question. All this is causing a certain notional confusion. A fruitful understanding among the various researchers into organization is therefore, possible only on an appropriate abstract level.

The organization of work is as old as the human labor, irrespectively of the simplicity of the organizational form used by the man in his log history of struggling against the nature. The organization of work was growing and developing simultaneously with the growth and development of labor. We can say for certainty that the organization of work was accompanying already the first processes of acquiring material goods. The problem of the organization of work arises always when the task becomes as big that it cannot be carried out by one man alone. At the beginning development stage organization was simple and was based, first of all, upon experience. With the development and with increase in the production, however the significance of the organization of work was on an increase. Scientific investigations have been substituted for experience. Overlapping and an inappropriate definition of the notion »organizations of work« and »organization of the enterprise, or in general, »organization« are also contributing their share to the notional confusion.

The organization of work can be defined as a conscious human activity linking and coordinating all the production agents to achieve the optimum result of the works work. For achieving the optimum results there is namely required, at every moment, a complete co-ordination as to the quantity, quality, time and space of all the agents in the process of production.

Organization of an enterprise (organization) is no other thing that the organization of work corresponding to such a development of the production forces and social relations as there has grown, on account of the developed division of labour and of the general circumstances, the need for s stronger differentiating of preparing, performing, supervising and realizing the production as a necessary stage of a more purposeful course of the process of work. The organization of enterprise thus means only a broader notion as related to the narrower notion of the organization of work.

Two conceptions of organization are characteristic of the classical theory of organization, above all, namely the organic and the mechanistic conception of organization.
The followers of the organic (biologist) theory of organization compare the organization with a live organism. To them organization means a live natural whole having purposefully linked parts, organs, each of them performing a special function, an that in the manner that their parts and their functions are mutually linked and coordinated so that the purposeful performing of a joint task is ensured. Their opinion is that organization should be build after the pattern of a live organism, there should be build in the organization also all those regulatory mechanisms that can be found in each live human being.

The followers of the mechanistic concept of organization, on the other hand, treat organization as something similar to a mechanism, having the general characteristic of a complete machine. To them organization means similarly as a machine, a depersonalized device making possible the system of work conceived of upon rational bases. Such a device must work without friction, without errors caused by human weaknesses; such a device should be, as a rule, superior to men.

1.2 Organization Definition

We have emphasized that the notion of organization has a different meaning for the individual researchers and authors. Thus, for instance, for Domainko organization is an activity of linking and coordinating, for Novak is a conscious human activity, for Weber it is a way of combining services, for Niklish it is a organic creativity operating, for Nordsieck it is a technique of combining processes, for Mellerowicz it is a systematic and planned preparation of people and things, for Ulrich it is combining an directing of the holders and their services, for Mooney and Reilly it is a technique of arranging and connecting the processes, for Gerwig it is a conscious creating of the organs, for Fisher it is shaping the external form, for Riester it is a conscious linking, and according to the Soviet Economic Encyclopedia it is a rational linking of the processes. It is a characteristic feature of all the above mentioned organizational definition that they conceive organization as of an activity or a technique of combining the processes. In relation to definition mentioned above we can state the first type of the definition of organization and put down that an organization is a conscious human activity of linking and coordinating of the production agents or a technique of combining the processes for a purposeful realizing of the objectives set.

A number of organization researchers define organization as a sort of formation being the result of the organizing. For instance, for Goetz Briefs organization is an association of people, For Sombart it is a process of the organizing or a result thereof, for Fayol it is an organism, for Mooney it is any form of human association, for Gross it is a group of people or a co-operative system, for Litterer it is a social unit, for Desic it is a live organism, for Novak it is any form of association of people, for Peric it is a purposeful system, for Allen it is a mechanism or a structure. A common characteristic feature of all these definitions is that they conceive of an organization as an association of people, as a system or formation being the result of the organizing. From these definitions we can sum up and define organization as a socio-technical system.

Numerous organization theoreticians are of the opinion that interrelations are essential for organization. For Erdmann, for instance, organization is a amount of the measures directed for arranging relationships, for Brown it is a construction of the depending parts in its relation to the whole, for Koontz and O'Dounell it is a construction of authority relationship, for Litterer it present stable mutual relationships, for Argyris it is multitude of codependent parts, for Lipovec it is a system of the human interrelations. On the basis of the definitions mentioned we can sum up and put down that organization is a system of interrelations of all the participants associating their labor for a purposeful realization of their common objectives.

We shall summarize in a special group those deliberations made by the organization theoreticians according to which organization is a scientific discipline. Thus, for instance, following the Soviet Economic Encyclopedia organization is a science investigates the economic laws of socialism, according to Chevalier it looks for the principles of rational running of an enterprise, gives rules for a best possible utilization of capital and a skill uses the patterns established, according to Pethoud organization as a science shapes the main principles and as a skill it uses them, according to Novak organization is a science investigates the regularity of the methods and the means, according to Urwick organizations is a science is the synthesis of the other scientific disciplines. It is characteristic of the definitions mentioned above that they comprise the definition
of organization as a scientific discipline, the provisions in investigating the laws, ways, methods, forms, principles, and means making possible a rational production. On the basis of the definitions mentioned we can see that organization is also a scientific discipline, having its own subject of investigation developing theory thereon to be use in practice. The subject of investigating organization as a scientific discipline is the socio-technical systems. Organization as a scientific discipline investigates and shapes patterns, methods, techniques and principles of organizing, managing and adapting the socio-technical systems to all the changed condition of operating and of work.

The most significant patterns so far developed by the theory of organization are:

- Input
- Throughput
- Output
- Negative entropy
- Homeostasis
- Cycles of event
- Differentiation of functions
- Equifinality

Same more significant methods of the scientific organization are:

- Division of labour
- Rationalization
- Specialization
- Professional orientation,
- Typisation,
- Standardization
- Unification,
- Diversification,
- Group technology, and others.

Organization as a scientific discipline has developed also a number of techniques for planning, programming, optimization, evaluation, and others. Most fruitful, however, is the theory of organization in shaping the principles, for there known more than 100 relevant organizational principles. Some more significant organizational principles are the following:

- Principle of hierarchy
- Principle of command unity,
- Principle of exception,
- Principle span o control
- Principle of authority
- Principle of justice, and others.

1.3 Some more significant Turning-Points in the Development of Scientific Organization

Scientific organization, as to time, was developing in different ways in the various countries. Its development influenced by the series of factors, such as, the development stage of the production forces, the socio-political system of the individual countries, and not last the cultural differences between the countries of Europe and those of America. All those and other factors are aggravating an exact division of its development.

With regard to the emerging of the succession in the growing of the organizational knowledge, to the parallel development of the knowledge in the different countries of the world and to the expansion of the fields of the research into organization from the simple view up to a systematic approach of investigating organization, we can draw up the following basic order of the development of the scientific organization (Ivanko, 2007):

- Preliminary investigation of organization
- Classical organization theory
• Classical organization theory in the USA (Scientific Management)
• Classical organization theory in Europe (Administrative Management)
• Fayol School for investigating industrial organization
• Weber and Michels investigations into organization
• Neoclassical organization theory
• Management process and human behavior approach
• Human relations theory
• The comparative approach
• Challenge and reaction
• Modern organization theory
• Human resources theory (Human Resource Management)
• System theory of the organization
• Postmodern theory of organization
• Reengineering (complex redesign of organization)
• Learning organization
• Theories and models of quality
• Organizational development
• Theories of excellence
• Twenty keys
• Innovating organization
• Cluster system of organization

In the continuation we are going to present the most significant organizational aspect of the organizational investigations following the individual stages of the development.

1.3.1 Preliminary Investigations into Organization

We can state that the organization of work was accompanying already the first processes of acquiring material goods. It can be systematically investigated into, however, only on the basis of written sources. The first records concerning the division of labor can be found already with the Ancient Greek writers, for instance, with Xenophon and Aristoteles. In the Middle Age and during the first period of the development of the manufacturing production a series of writers discussed the problem of the work fatigue, standardization experiments and the production quota setting.

Among the preliminary investigations we could quote a number of names of the researchers into organization, but this would exceed the scope of this chapter. The turning-point in the investigation, however, occurred in the year 1903, when F. W. Taylor published his work »Shop Management«, being the first and independent work in the field of the organization investigation. Just for this reason we consider all investigation into organization until Taylor as a preliminary investigations into scientific organization, and Taylor as its founder.

1.3.2 Classical Organization Theory

The investigations made by the classical theoreticians of organization focused their attention upon the laying down of the organizational principles and upon the formalistic aspects of organization. The organization theoretician mainly investigate into the principles and suggest the solutions to be taken into consideration by the heads as the directions ensuring a successful management. With the classical theoretician of organization we can find very few experiments and supervisory observation for testing the practicability of the principles and suggestions proposed. The number of the principles developed by the classical writers exceeded the figure 100. The common characteristic feature of the principles is that they are simple and adapted to the organizational practice. The principles of the organizations classic are not the result of scientific investigations, either, but they are the descriptions of the practical cases taken from practice and the directions for a successful management.
The practicability of the classical organization principles is linked to the circumstances, however, requires that they are adapted to the concrete conditions of operating. A blind taking into consideration of the classical organization principles is useless.

1.3.2.1 Classical Organization Theory in the USA

The accelerated development of the industrial production and of the other activities in the USA influenced, at the time of the turning-point of the 20th. century, upon the development of the scientific organization. The totality of the methods developed within the first period of the organizational investigations made in the USA is styled, in the organizational literature, as Scientific Management. The micro-organizational approach, and thus the use of the inductive method of investigation into the organizational phenomena, are characteristic of the scientific management. The theoreticians of this organizational direction were, first of all, interested in the problems of the workplace and then those of higher levels of the workplace within the organization.

The most significant representative of the Scientific Management is F.W. Taylor. Scientific management embraces the Taylor School and the others investigating and supplementing Taylor’s functional concept of management, division of labor, organizational specialization, and professional orientation. Through his functional concept of the management of the workshop he laid foundations for a further accelerated development of the scientific organization.

The totality of Taylor’s methods and of those of his collaborators is known, in the organizational literature, also as taylorism.

The founder of scientific management, Frederick W. Taylor (1856–1915), developed his principles of scientific management as he rose from the position of laborer to chief engineer at the Midvale Steel Works in Philadelphia, Pennsylvania. These principles, which appear in Table 1.1, focused on increasing the efficiency of the workplace by differentiating managers from nonsupervisory workers and systematizing the jobs of both types of employees.

<table>
<thead>
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<th>Table 1.1: Frederick W. Taylor’s Principles of Scientific Management</th>
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<tr>
<td>1. Assign all responsibility to managers rather than workers.</td>
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<tr>
<td>2. Use scientific methods to determine the one best way of performing each task.</td>
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<tr>
<td>3. Select the person most suited to each job to perform that job.</td>
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<tr>
<td>4. Train the worker to perform the job correctly.</td>
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<tr>
<td>5. Monitor work performance to ensure that specified work procedures are followed correctly and that appropriate results are achieved.</td>
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<td>6. Provide further support by planning work assignments and eliminating interruptions.</td>
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According to Taylor, an organization’s profitability could be ensured only by finding the “one best way” to perform each job. Managers were charged with teaching workers this technique and implementing a system of rewards and punishments to encourage its use. Taylor reported that he used this approach
to improve the productivity of coal shovelers at the Bethlehem Steel Company. As he observed these workers, he discovered that a shovel load of coal could range from 4 to 30 pounds, depending on the density of the coal. By experimenting with a group of workers, Taylor discovered that shovelers could move the most coal in one day without suffering undue fatigue if each load of coal weighed 21 pounds. He then developed a variety of shovels, each of which would hold approximately 21 pounds of coal of a particular density. After Taylor taught workers how to use these shovels, each shoveler’s daily yield rose from 16 tons to 59 tons. At the same time, the average wage per worker increased from $1.15 to $1.88 per day. Bethlehem Steel was able to reduce the number of shovelers in its yard from about 500 to 150, saving the firm about $80,000 per year.

Taylor’s ideas influenced management around the world. In a 1918 article for the newspaper Pravda, the founder of the Russian Communist Party, Vladimir Lenin, recommended that Taylor’s scientific management be used throughout the Soviet Union. In the United States, Taylor’s principles had such a dramatic effect on management that in 1912 he was called to testify before a special committee of the Congress. Unions and employers both objected to Taylor’s idea that employers and employees should share the economic gains of scientific management and wanted Congress to do something about it. Nevertheless, with the newspaper publicity he gained from his appearance, Taylor found even wider support for his ideas and was soon joined in his work by other specialists.

Irrespective of the deficiencies all the later theoreticians of organization recognized Taylor’s great talent and his methodical level in the organization investigation, as well as his merit that he was the first to start analyzing human work.

In spite of the numerous criticism taylorism was practiced during the First World War in an accelerated manner. The increased volume of the requirements of the products for military purposes and the lack of labor force exerted their influence upon the development of the serial and mass production, where it was possible to use Taylor’s methods in a more consequent manner.

After the First World War the interest in Taylor’s methods was revived. A great number of the organization has to change over in their orientation and pass from the military production again to the civilian one. The criticism and the removing of Taylor’s mistakes were growing. There appeared various schools: the pure orthodox Taylor school, the liberal school by Gantt and Emerson school.

In addition to Taylor we can range among the earlier classical theoreticians of organization also: Gilbreth, Ford, Leffengwell, Bart, and other.

After the year 1930 there excel in the investigation of organization within the framework of the classical investigations into organization within the USA, above all, the theoreticians such as: Mooney, Reily, Follet, Graicunas, Davis, and other.

1.3.2.2 Classical Theory of Organization in Europe

The scientific organization in Europe had another development as compare with the USA. The deductive approach in the investigation into organization is characteristic of the European classical theoreticians of organization. The first theoreticians of organization were already interested, above all, in the problem of the organization as a whole and the principles of organization regulating the work processes. The initial investigations into the organization in Europe are known, owing to a macro organizational approach in the investigating, as the administrative management. Characteristic of the European scientific investigations into organization is the method of deduction, whereas the method of induction is characteristic of the scientific management in the USA.

Within the framework of initial scientific investigations into the organization in Europe there will be discussed the two already mentioned approaches.
1.3.2.3 The Fayol School for investigation into the industrial organization

The French engineer H. Fayol was the first to start a systematic investigation into organization in Europe. In the year 1916 he published his large work entitled »Administration Industrielle et Generale«.

The most important result of Fayol’s investigations is the linear division of the common operations into operational functions. Fayol’s division of the common operating of the industrial organizations into the operational functions is a fundamental one, and most authors investigating into the operational functions, start from this division. He thought that there were six fundamental business functions in a developed industrial organization. These functions were:

- Technical
- Commercial
- Financial
- Accountancy,
- Protective
- Administrative.

He considered the administrative function the most important one. He identified it with the function of administering and managing. The emphasis of his investigations was laid upon the administrative function. He thought that it consisted of the following elements:

- Planning
- Organizing
- Commanding
- Co-ordinating
- Supervising

These elements of administration were also considered as the basic tasks of each head. In his further analysis of the administration, however, he established the organizational principles the observation of which in practices could make possible for the heads a successful performance of the administration. He thought that there 14 most important organizational principles are:

<table>
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<th>Principle</th>
<th>Description</th>
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<tbody>
<tr>
<td>Division of work</td>
<td>A firm’s work should be divided into specialized, simplified tasks. Matching task demands with workforce skills and abilities will improve productivity. The management of work should be separated from its performance.</td>
</tr>
<tr>
<td>Authority and responsibility</td>
<td>Authority is the right to give orders, and responsibility is the obligation to accept the consequences of using authority. No one should possess one without having the other as well.</td>
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<tr>
<td>Discipline</td>
<td>Discipline is performing a task with obedience and dedication. It can be expected only when a firm’s managers and subordinates agree on the specific behaviors that subordinates will perform.</td>
</tr>
<tr>
<td>Unity of command</td>
<td>Each subordinate should receive orders from only one hierarchical superior. The confusion created by having two or more superiors will undermine authority, discipline, order, and stability.</td>
</tr>
<tr>
<td>Unity of direction</td>
<td>Each group of activities directed toward the same objective should have only one manager and only one plan.</td>
</tr>
<tr>
<td>Individual versus general interests</td>
<td>The interests of individuals and the whole organization must be treated with equal respect. Neither can be allowed to supersede the other.</td>
</tr>
<tr>
<td>Remuneration of personnel</td>
<td>The pay received by employees must be fair and satisfactory to both them and the firm. Pay should be distributed in proportion to personal performance, but employees’ general welfare must not be threatened by unfair incentive-payment schemes.</td>
</tr>
</tbody>
</table>
Centralization
Centralization is the retention of authority by managers, to be used when managers desire greater control. Decentralization should be used if subordinates’ opinions, counsel, and experience are needed.

Scalar chain
The scalar chain is a hierarchical string extending from the uppermost manager to the lowest subordinate. The line of authority follows this chain and is the proper route for organizational communications.

Order
Order, or “everything in its place,” should be instilled whenever possible because it reduces wasted materials and efforts. Jobs should be designed and staffed with order in mind.

Equity
Equity means enforcing established rules with a sense of fair play, kindliness, and justice. It should be guaranteed by management, as it increases members’ loyalty, devotion, and satisfaction.

Stability of tenure
Properly selected employees should be given the time needed to learn and adjust to their jobs. The absence of such stability undermines organizational performance.

Initiative
Staff members should be given the opportunity to think for themselves. This approach improves the distribution of information and adds to the organization’s pool of talent.

Esprit de corps
Managers should harmonize the interests of members by resisting the urge to split up successful teams. They should rely on face-to-face communication to detect and correct misunderstandings immediately.


By the scientific analysis of the administration or management Fayol laid foundations for a further development of the scientific organization in Europe.

The totality of Fayol’s methods and of those of his closest collaborators is also known as fayolism.

In the other European countries the scientific organization developed under the influence of fayolism in taylorism.

**Weber’s and Michel’s Investigations made into Organization in Europe**

Significant places among the beginners of the scientific investigation of organization are occupied by the German sociologists M. Weber and R. Michels. Weber was outstanding for his bureaucratic model of organization, and Michels for his analysis of the oligarchical tendencies in the mass organizations.

Weber’s bureaucratic organizational model presents a peculiar experiment of the human effort within the processes of associated labor upon bureaucracy. The basis of his model is the legal authority. He described his model as he has seen it in the practice of the religious and political organizations. In Weber’s bureaucratic model everything has been prescribed. The written rules govern the human behavior. Weber thought that only on the basis of the written rules and norms people can be evaluated, and not so on familiar basis. The condition of efficiency is impersonality of the management. Weber tended to depersonalize the management in the way as we do not, in the armed forces, salute the person in the uniform, but the uniform. The legal authority is the fundamental differentiating characteristic of Weber’s bureaucratic model.

Weber’s model presupposes a strict observation of the rules by all the employed at all the organizational levels. Competence and responsibilities must be clearly delimited. The basis of the mutual acting are impersonal relationships. The division of labor into highly specialized tasks creates chain of commanding ensuring that the tasks are performed in the way as defined. When the decisions are taken by the organizational summit, than any lack of consent present a questions of the organizational no disciplines. The hierarchical nature of the bureaucratization of all the relationships is its central and most differentiating characteristic feature. The advantages of the bureaucratic organization, as compared with the others are, according to Weber, the following.
The fundamental reason for the preference of a bureaucratic organization is in its pure technical superiority to any other form of organization. A completely developed bureaucratic mechanism in comparison with the other organization operates in the same way as a machine in a no mechanized production.« (Weber, 1947, p. 337).

It is difficult to describe the influence exercised by Weber’s bureaucratic model upon the further development of the scientific organization. Most theoreticians of the organization after Weber founded their investigations upon his bureaucratic principles; they either approved and supplemented them, or else they opposed these principles.

Table 1.3: Features of Bureaucratic Organizations

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection and promotion</td>
<td>Expertise is the primary criterion. Friendship criteria or other favoritism is explicitly rejected.</td>
</tr>
<tr>
<td>Hierarchy of authority</td>
<td>Superiors have the authority to direct subordinates’ actions. They must ensure that these actions serve the bureaucracy’s best interests.</td>
</tr>
<tr>
<td>Rules and regulations</td>
<td>Unchanging regulations provide the bureaucracy’s members with consistent, impartial guidance.</td>
</tr>
<tr>
<td>Division of labor</td>
<td>Work is divided into tasks that can be performed by the bureaucracy’s members in an efficient, productive manner.</td>
</tr>
<tr>
<td>Written documentation</td>
<td>Records provide consistency and a basis for evaluating bureaucratic procedures.</td>
</tr>
<tr>
<td>Separate ownership</td>
<td>Members cannot gain unfair or undeserved advantage through ownership.</td>
</tr>
</tbody>
</table>


The most important contribution by Michels to the development of the scientific organization is his analysis of the growing of oligarchic tendencies within the mass organization. In the detailed way he analyzed the role played by the leadership within such organization. His basic statement is that the role of the democratically elected leader is gradually changing into professional leading tending towards oligarchy. He thought that an oligarchic leading is the need of each mass organization, on account of the increase of the organizations, of a quick and efficient decision-making, of the difficulty in communicating with the great number of people, of the increase of the complexity of the operating, of the necessary knowledge, and of the ability of the leaders. Professional knowledge and other characteristics make possible for the leaders that they organize and shape their own interests that can be opposed to the interests of the masses represented by them. The basic reason for the oligarchic leadership is seen by Michels in the technical necessity of the leadership. The technical need for leading causes a differentiation in the functions. Michels thinks that each organization represents an oligarchic power founded by the democratic masses. A democratic organization tends towards oligarchy that substitutes for democracy. The main source of power for the development of oligarchy is seen by Michels in the inability of the democratic masses. His iron law of oligarchy is known the one who speaks about organization, always thinks of oligarchy (Michals, 1959, p. 401).

Michels analysis of the mass organization exerted a strong influence upon the further development of the science of organization. The numerous theoreticians of organization, political scientists, sociologists, and psychologists have taken into consideration his conclusions as the starting-point for their investigations.

1.3.3 The Neoclassical Theory of Organization

Neoclassical direction in the investigation of organization has developed, above all, after the Second World War. Up to the certain point it means a compromise between the classical theory of organization and the empirical investigations based on behavior sciences. The organizational theoreticians of the neoclassical school take into consideration the principles and proposals of the classical theory of organization as assumptions in their investigations. It is also characteristic of them that they expand and link their investigation with the
other scientific disciplines. Through their expanding the areas of organizational investigation and through their empirical research they have enriched the organization theory with new knowledge.

1.2.1.1 Management Process and the Human Behavioral Approach

The accelerated of the behavior science, in particular after the Second World War, exerted it influence upon the classical theoreticians of organization to expand the areas of the organizational investigation to the human aspects within the organization. This, however, caused that they were gradually changing the view of the classical organizational principles. These were taken into account only as assumptions in their investigations empirically testing them by the use of the mathematically statistically methods and behavior science. They also investigated into the management process which had not been a characteristic feature of the classical theoreticians of organization. The investigation made into management process and the behavior approach in the investigation into the organizational variables are the two essential characteristics of the orientation treated in the organizational investigation.

The most prominent representatives of the management process and of the human behavior approach are the American theoreticians of organization, W. Newman and C.H. Summer –their common work of the year 1961 »The Process of Management« reflects all the essential characteristic features of the treated development stage of the scientific organization.

The theoreticians of management process and of the human behavior approach expanded the areas of their investigations to completely new views within the organization, such as:

- participation
- communication,
- motivating,
- morale
- role and position of personnel in the organizational hierarchy
- perceptions, and similar views.

The representatives of management process and of the human behavior approach established, by empirical investigations a series of contrasts between the theoretical requirements and the practical use of the classical organizational principles. Such contrasts, however, shook the value of a number of the classical organizational principles and contributed to their more correct understanding.

It is a characteristic feature of the management process and the human behavior approach that they were build on the basis of the classical theory of organization, but they dealt with the man as a variable and not as a given fact.

1.3.3.2 Human Relations Theory

The first eginning of the emergence of the human relations theory are linked with the known Hawthorn experiment made in the year from 1924 to 1929. The most fruitful period of the development of the human relation theory, however, comprises the period from 1930 to 1950.

The theory of human relations was, above all, influenced by two factors: the increased volume of the operations of the industrial organizations and the increased in the number of educated workers in the organization. The strict prescribed impersonal human relations become the obstacle of a further development of an successful adapting of the organizations to the changed conditions of the operating.

The initial objectives of the human relations theory was to check the appropriateness for the influence of some physical variables upon, the productivity. But already the first investigations were directed toward investigating the organizational element in which the classical theoreticians of organization had not been interested. The representatives of human relations theory deal with organizations as a social system which is in opposition with the classical view conceiving the organization only as a technical system.
The most investigated areas of the human relations theory are, first of all, the following:

- Work motivation
- Worker’s participation in decision-making
- Communication
- Informal working groups
- Working morale
- Worker’s relations to the changes
- Working conditions
- Informal organization, and the other.

The main objectives of the investigations made into the human relations theory was in looking for the methods by which one could again make happy the workers and thus get them for more active work.

The founder of the human relations theory is E. Mayo. In his investigations he started from the assumption that the industrial revolution had destroyed the traditional society in which people had been mutually responsible according to the established customs. He thought that the industrialization caused great contrasts in the society. As the old traditions cannot repeat he thought that it is necessary to seek the solution in the adapting of the society to the new relations. He made efforts to find means of solving the problem of the suffering and dissatisfied man within the industrial society. The most efficient means of the solving of these problems he sow in human relations. He believed in the therapy of relations and in the possibility of creating such relations among people where people are free and stimulated to speak about their problems to all who are willing to listen to them.

In it initial, naive form the human relations theory treated in a nonscientific manner, a relatively small number of the organizational elopements. It main purpose was to repeatedly make happy man in the production by creating favorable working conditions. They wanted to achieve all this thing by laying stress upon no economic motives. Its first theoreticians were of the option that if people are happy and satisfied, if they feel within the organization as a great happy family, they will achieve high result in their work. Later investigations refused the initial conclusions of this theory. Notwithstanding the naivety of the initial conclusion made by the human relations theory we ca state that it conclusions exerted a strong influence upon the further development of the scientific organization, as well as upon the organizational practice of that period. Business managers started to recognizing that economic satisfaction is not a primary stimulation of the employed. The recognize as well that a close management and direct supervision of the work can have also negative consequences, that to large a formalization of the relations distorts the communication and that the employed represent a peculiar social structure which can considerable contribute to a more efficient decision-making and caring out of the decisions.

The Hawthorne studies

The Hawthorne studies, which began in 1924 at Western Electric’s Hawthorne plant near Chicago, Illinois, were among the earliest attempts to use scientific techniques to examine human behavior at work. As summarized in Table 1.4, a three-stage series of experiments assessed the effects of varying physical conditions and management practices on workplace efficiency. The first experiment examined the effects of workplace lighting on productivity; it produced the unexpected findings that changes in lighting had little effect but that changes in social conditions seemed to explain significant increases in group productivity. Additional experiments led the researchers to conclude that social factors—in particular, workers’ desires to satisfy needs for companionship and support at work—explained the results observed across all of the Hawthorne studies.
### Table 1.4: The Hawthorne Studies

<table>
<thead>
<tr>
<th>Experiment</th>
<th>Major changes</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage I: Illumination study</td>
<td>Lighting conditions</td>
<td>Improved productivity at nearly all levels of illumination</td>
</tr>
<tr>
<td>Stage II: First relay-assembly test</td>
<td>Job simplification, shorter work hours, rest breaks, friendly supervision, incentive pay</td>
<td>30 percent productivity improvement</td>
</tr>
<tr>
<td>Second relay-assembly test</td>
<td></td>
<td>Incentive pay12 percent productivity improvement</td>
</tr>
<tr>
<td>Mica-splitting test</td>
<td></td>
<td>15 percent productivity improvement</td>
</tr>
<tr>
<td>Stage III: Interview program</td>
<td></td>
<td>Discovery of presence of informal</td>
</tr>
<tr>
<td>Bank-wiring-room test</td>
<td>Incentive pay</td>
<td>Emergence of productivity norms</td>
</tr>
</tbody>
</table>

Later reanalyses of the Hawthorne experiments not only found weaknesses in the studies’ methods and techniques, but also suggested that changes in incentive pay, tasks being performed, rest periods, and working hours led to the productivity improvements attributed by researchers to the effects of social factors. Nonetheless, the Hawthorne studies raised serious questions about the efficiency-oriented focus of the scientific management and administrative principles perspectives. In so doing, they stimulated debate about the importance of human satisfaction and personal development at work. The human relations perspective of management thought that grew out of this debate redirected attention away from improving efficiency and toward increasing employee growth, development, and satisfaction.

**Douglas McGregor**

Douglas McGregor (1906–1964) played a key role in promoting this redirection, through his efforts at sharpening the philosophical contrast between the human relations approach and the scientific management and administrative principles perspectives. McGregor used the term Theory X to describe his key assumptions about human nature, which appear in Table 1.5. He suggested that theorists and managers holding these assumptions would describe management as follows:

### Table 1.5: Theory X and Theory Y Assumptions

<table>
<thead>
<tr>
<th><strong>Theory X assumptions:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The average person has an inherent dislike of work and will avoid it if possible.</td>
</tr>
<tr>
<td>2. Because they dislike work, most people must be coerced, controlled, directed, or threatened with punishment before they will put forth effort toward the achievement of organizational objectives.</td>
</tr>
<tr>
<td>3. The average person prefers to be directed, wishes to avoid responsibility, has relatively little ambition, and desires security above all.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Theory Y assumptions:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Expanding physical and mental effort at work is as natural as play and rest. The average person does not inherently dislike work.</td>
</tr>
<tr>
<td>2. External control and the threat of punishment are not the only way to direct effort toward organizational objectives. People will exercise self-direction and self-control in the service of objectives to which they feel committed.</td>
</tr>
<tr>
<td>3. Commitment to objectives is a function of the rewards associated with their achievement. The most significant rewards—the satisfaction of ego and self-actualization needs—can be direct products of effort directed toward organizational objectives.</td>
</tr>
<tr>
<td>4. Avoidance of responsibility, lack of ambition, and emphasis on security are not inherent human characteristics. Under proper conditions, the average person learns not only to accept but also to seek responsibility.</td>
</tr>
</tbody>
</table>
5. Imagination, ingenuity, creativity, and the ability to use these qualities to solve organizational problems are widely distributed among people.


According to McGregor managers holding the human relations perspective, is based on the first set of assumptions shown in Table 1.5:

1. Managers are responsible for organizing the elements of productive enterprise—money, materials, equipment, people—solely in the interest of economic efficiency.
2. The manager’s function is to motivate workers, direct their efforts, control their actions, and modify their behavior to fit the organization’s needs.
3. Without such active intervention by managers, people would be passive or even resistant to organizational needs. They must therefore be persuaded, rewarded, and punished for the good of the organization.

According to McGregor, the scientific management and administrative principles perspectives promoted a “hard” version of Theory X. Both perspectives favored overcoming employees’ resistance to organizational needs through strict discipline and economic rewards or punishments. McGregor added that a “soft” version of Theory X seemed to underlie the Hawthorne studies, as the Hawthorne researchers appeared to regard satisfaction and social relations mainly as being rewards for employees who followed orders.

Theory Y, a contrasting philosophy of management that McGregor attributed to theorists, researchers, and managers holding the human relations perspective, is based on the second set of assumptions shown in Table 1.5. According to McGregor, individuals holding Theory Y assumptions would view the task of management as follows:

1. Managers are responsible for organizing the elements of productive enterprise—money, materials, equipment, people—in the interest of economic ends.
2. Because people are motivated to perform, have potential for development, can assume responsibility, and are willing to work toward organizational goals, managers are responsible for enabling people to recognize and develop these basic capacities.
3. The essential task of management is to arrange organizational conditions and methods of operation so that working toward organizational objectives is also the best way for people to achieve their own personal goals.

Unlike Theory X managers, who try to control their employees, Theory Y managers try to help employees learn how to manage themselves.

1.3.3.3 Comparative Approach

The organization theoreticians of the comparative approach investigate the similarities among the different organizational structure with the objective to shape some generally operative principles of organization. The comparative approach presents an experiment in the neoclassical theory of organization tending to abolish the deficiencies of the classical organizational theory. The fundamental method of investigation in the organizational phenomena is an empirical investigation into the management activities within two or more organizations. The objectives of investigation made by the theoreticians of the comparative approach was the checking and the adapting of the principle of the classical theory of organization to the newly created conditions of the operating within the organization. Through checking and adapting of the classical theory of organization they wanted to develop a more practicable general theory of organization.

The most prominent representative of the comparative approach is the American organizational theoretician E. Dale. In his investigation he wanted to co-operate the organization principle of the classical theory of organization, with the changes demanded by their application in the practice, on account of the changed conditions in the operating of the industrial organization. The conclusions of this investigations were drawing attention to unsolved problem which were the business managers met with. He was calling attention to the need for the measuring the efficiency of management, the need for investigating the relation of people
to the organization, the investigation to the decision-making process, and to the deliberation on the significance of the social responsibility with regard to managerial activities. He was calling attention to the social responsibility of the heads to the need of their new quality.

Dale wanted to establish to what extent they were applying the classical principles of management. He also investigated into the rate of growth or the organization and established the organizational problems occurring at the various rate of growth.

The comparative approach of the organizational investigations has several variations. Some of them are explicitly neoclassical, and some closely connected with the behavior science. The comparative investigation into organization means a modification of the classical organization theory. These modification on the other hand, meant a supplement to the classical theory of organization and also exerted their influence upon a quicker development of the general theory of organization.

1.3.3.4 Challenge and Reaction Approach

Challenge and response approach is a special direction in the neoclassical investigation of organization is essentially a programmatic approach. This approach did not tend towards creating a homogeneous course of thought or knowledge about organization. The adherent of this approach was of the opinion that organization was a skill or practice using the methods and techniques of the other scientific disciplines. The organization theoreticians also thought that the managers were challenged by the objectives in the concrete circumstances with which they were faced. With regard to the objectives and to the circumstances he had to find correct answers and solutions, irrespective of the limitation of any organizational principles.

The challenge and reaction approach recognized the determined organization models and the principles of the classical theory of organization, but is not tending towards findings generalities; do not tend towards developing the organization theory. The fundamental direction in the investigation into organization of the challenge and response approach are not the theoretical and scientific investigation of the organizational phenomena, but the seeking of the answers to the special problems met by the heads in the practice.

The most significant representatives of the challenge and response approach are the American theoreticians and successful advisers for the industrial organizations P. Drucker and G. Odiorne. Their most important contribution to the treasury of the organization knowledge is the theoretical conception of a management by objectives.

1.3.3.5 Management by Objectives

Introduction to Management by Objectives

The term “management by objectives” (MBO) was first popularized by Peter Drucker in his 1954 book ‘The Practice of Management’.

Management needs a lot of tools to be able to administrate effectively their business. Management by objectives is one of such tools. It is a way of getting improved results in managerial action.

The essence of MBO is participative goal setting, choosing course of actions and decision making. An important part of the MBO is the measurement and the comparison of the employee’s actual performance with the standards set. Ideally, when employees themselves have been involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.

Management by objectives can be described as a managerial method where by the superior and the subordinate managers in an organization identify major areas of responsibility, in which they will work, set some standards for good performance and the measurement of results against those standards (Derek 2005). Management by objective is also called Managing By Objectives. However, there have been certain individuals who have long placed emphasis on management by objectives and by so doing have given impetus
to its development as a system. Management by objectives refers to a structured management technique of setting goals for any organizational unit.

**Definition of Management by Objectives**

Management by objectives (MBO) is a process of defining objectives within an organization so that management and employees agree to the objectives and understands what they need to do in the organization (Drucker, 1954).

George S. Odiorne (1981) defined this concept as “a system of management whereby the superior and subordinate jointly identify objectives, define individual major areas of responsibility in terms of results expected, and use these objectives and expected results as guides for operating the unit and assessing the contribution of each of its member. Besides, Odiorne points out that management by objectives is a “system of management” an overall frame work used to guide the organizational unit and outline its direction. He went further to point out that “the superior and subordinate jointly identify objectives”. In other words, it is a participative management procedure that requires commitment and co-operation. The definition deals with identifying the “results” that are expected. Thus management by objectives concentrates on the output of the organization evaluating people by assessing their contribution to this output.

Management by objective was defined by Koontz and O’Donnell (1968) as a technique or system or method of management where by the superior and subordinate managers of an organization agreed on its broad goals, translate these goals into a chain of specific short term goals, defined each individuals major areas of responsibility in terms of result expected, continually reviewed the accomplishment as the sole basis of assessing and rewarding them.

“MBO is a participative system of managing in which managers look ahead for improvements, think strategically, set performance stretching objectives at the beginning of a time period, develop action and supporting plans and ensure accountability for results at the end of the time period.” (Paul Mali, MBO UPDATED 1972)

This definition is based on six current categories; that MBO is:
- A strategy for collaborative decision making.
- A process of planning and control so as to give future directions to complex organizations.
- A participation process leading to a commitment agreed to by managers responsible for the accomplishment.
- A performance and evaluation system for getting results which engenders teamwork through collaboration and participation.
- An attitude which views management’s mission as change and improvement.
- A process that views results as to be achieved over a critical time period.

**Management Theory**

This has evolved historically through various “schools” of writers and developed by each one. The first seminal book in modern times was that of Peter Drucker in the fifties and sixties, where in THE PRACTICE OF MANAGEMENT the term MBO was first used. Further books by Drucker refined and reinforced the concept, particularly the effective executive and managing for results.

Notable names in the “history” of management theory are Douglas McGregor, George Odiorne, John Humble, Walter Reddie and Paul Mali. Without a doubt, Drucker is the most important if only because he was the “founding father” of MBO. The axioms laid down by him have colored all management thinking since. For him, management is the job of organizing resources to achieve satisfactory performance, producing an enterprise from material and human resources.

Objectives in a business enterprise enable management to explain, predict, and control activities and the soundness of decisions is examined while they are still being made. As a result, future performance can be
improved by analyzing past experience. The most important feature of MBO is the effect on an individual manager thus enabling an organization to develop its best resource: management.

Management by objective goes beyond setting annual objectives for organizational units to setting performance goals for individual employees (Stoner, 2000, p. 361). Management by objectives has become a great deal of discussion, evaluation and research and inspired many similar programs.

Management by objectives refers to a formal set of procedures that begins with goal setting and continues through performance review. Managers and those they supervise act together to set common goals. Each person’s major areas of responsibility are clearly defined in terms of measurable expected results or objectives, used by staff members in planning their work, and by both staff members and their managers for monitoring progress. Performance appraisals are conducted jointly on a continuing basis, with provisions for regular periodic reviews.

There are some main principles of MBO deriving from systematic thinking that characterize the theory:

• Principle of improvement: managers must act to make the future of an organization better than in the past. (Or part of an organization, such as a government Home Office).
• Principle of expectation: people expend more effort when the probability of receiving a reward from achieving the goal is known in advance.
• Principle of achievement: large achievements are accomplished by people who break these down into smaller related elements.
• Principle of strategic planning: decision on desired future effects and formulation of present day causes to make them happen.
• Principle of targeting: the greater the focus of effort on a specific goal, the greater the possibility of reaching it within a certain time scale.
• Principle of risk taking: a concerted effort should be made to set objectives to optimize expected value and minimize risk of failure.
• Principle of linking: setting objectives in a participative process in advance of doing work gives visibility to the state of co-ordination in an MBO management system.
• Principle of performance stretch: the more managers tolerate mediocrity in subordinates the more they tolerate it in themselves.
• Principle of accountability: when employees participate in and are held responsible for what is being done.
• Principle of motivation: the greater the alignment of employee expectancies (needs) with employer expectancies (objectives) the greater the motivation to accomplish both.
• Principle of prioritizing: assignments from a spectrum of possible objectives should be made on the basis of high payoff for both the organization and the individual.
• Principle of participation: productivity increases rapidly when employees participate in the decision affecting it and when expected benefits are shared.
• Principle of feedback: the quicker the difference between actual and planned performance is fed back to managers, the quicker adjustments can be made.
• Principle of commitment: this locks individual managers and their plans together for a period of time to achieve objectives which are commitments.

Why MBO?

Management by objectives is a strategy where in the management sets specific goals for the employees to accomplish within a fixed time period. Management by objective is a dynamic system which seeks to integrate the company a need to clarify and achieve its profit and growth goals with the managers need to contribute and develop himself. It is a demanding and rewarding style of managing a business.

Management by objectives can work in any size of organization if the procedures are understood and managers are patient in letting the system set in first. Management by objective is an effective planning, control and development system.
MBO is a goal setting process. However, MBO is distinguished from other goal setting approaches by its emphasis on measurable objectives, the setting of a time period for completion of objectives and participation by both the employee and the supervisor in determining the objectives and evaluating their accomplishment. It does involve weighing up the person at the end of each year – quite a task, but which is the culmination of the MBO exercise. Measurable objectives are not easy to specify especially in the world of education for example, but the claim is made that objectives in such areas can be set. According to Hicks and Gullett one approach is “to set qualitative objectives that indirectly measure the real goal being sought”. The heart of management by objective is the objectives, which spell out the individual actions needed to fulfill the units functional strategy and annual objectives. Management by objectives provides a way to integrate and focus the efforts of all organization members on the goals of higher management and overall organizational strategy.

Another key to management by objective is its insistence on the active involvement of managers and staff members at every organizational level. Drucker (1979) insisted that managers and staff members sets their own objectives or at the very least, be actively involved in the objective setting process. Otherwise people might refuse to co-operate or make only half-hearted efforts to implement someone else’s objectives.

**Using Management by Objectives**

Every level of management in the organization participates in the strategic planning process and creation of performance systems. The managers of the firm are expected to participate in the strategic planning process to ensure the effectiveness in the implementing of the plan. The managers are expected to apply a range of performance systems, designed to help in the effective functioning of the organization.

An MBO system calls for each level of managers to identify their goals for ever area they are responsible for. These goals are shared then with their individual units. Shared targets guide individuals in fulfilling their role. The role of the management now is to monitor and evaluate performance. The focus is on future rather than on past. They check progress frequently and over a set period of time. There is external and internal control in this system with routine assessments. An evaluation is done to understand as to which extent the goals have been met.

An important aspect of the MBO approach is this agreement between employees and managers regarding performance which is open to evaluation. The principle is that when employees are involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities. There is a link between organizational goals and performance targets of the employees.

Peter Drucker outlined the five-step process for MBO. Each stage has particular challenges that need to be addressed for the whole system to work effectively.

![Figure 1.1: The Five-Step MBO Process](image-url)
Set or Review Organizational Objectives: MBO starts with clearly defined strategic organizational objectives. If the organization isn’t clear where it’s going, no one working there will be either.

Cascading Objectives Down to Employees: To support the mission, the organization needs to set clear goals and objectives, which then need to cascade down from one organizational level to the next until they reach the everyone.

To make MBO goal and objective setting more effective, Drucker used the SMART acronym to set goals that were attainable and to which people felt accountable. He said that goals and objectives must be:

- Specific
- Measurable
- Agreed (relating to the participative management principle)
- Realistic
- Time related

For each objective, you need to establish clear targets and performance standards. It’s by using these that you can monitor progress throughout the organization. These are also important for communicating results, and for evaluating the suitability of the goals that have been set.

Encourage Participation in Goal Setting: Everyone needs to understand how their personal goals fit with the objectives of the organization. This is best done when goals and objectives at each level are shared and discussed, so that everyone understands “why” things are being done, and then sets their own goals to align with these.

This increases people’s ownership of their objectives. By pushing decision-making and responsibility down through the organization, you motivate people to solve the problems they face intelligently and give them the information they need to adapt flexibly to changing circumstances.

Through a participative process, every person in the organization will set his or her own goals, which support the overall objectives of the team, which support the objectives of the department, which support the objectives of the business unit, and which support the objectives of the organization.

Once you have established what it is that someone is accountable for, you must provide the information and resources needed to achieve results. You must also create a mechanism for monitoring progress towards the goals agreed.

Monitor Progress: Set up a specific plan for monitoring goal performance. Badly-implemented MBO tends to stress the goal setting without the goal monitoring. Here is where you take control of performance and demand accountability.

Think about all the goals you have set and didn’t achieve. Having good intentions isn’t enough, you need a clear path marked by accountability checkpoints. Each goal should have mini-goals and a method for keeping on top of each one.

Evaluate and Reward Performance: MBO is designed to improve performance at all levels of the organization. To ensure this happens, you need to put a comprehensive evaluation system in place.

As goals have been defined in a specific, measurable and time-based way, the evaluation aspect of MBO is relatively straightforward. Employees are evaluated on their performance with respect to goal achievement. All that is left to do is to tie goal achievement to reward, and perhaps compensation, and provide the appropriate feedback.

Employees should be given feedback on their own goals as well as the organization’s goals.
Application of Management by Objective

To understand how management by objectives can be applied, it is necessary to look at the parts of the process. Management by objective can be divided into multiple steps in many combinations, but three main ones will be discussed: organization objective setting, manager objective setting, and objective review (Mullins, 2005).

Organization Objective Setting: Setting objectives is the most difficult step in management by objective. Objective setting looks beyond day-to-day activities to answer the question “what are we trying to accomplish?” This step requires the top managers of an organization to review the purpose for which the organization exists. With this mission in mind, the commander or supervisor and his staff must then set organizational objectives in areas where the unit will concentrate its efforts during the approaching objective setting period. These objectives are:

- To provide direction to the entire organization and
- To provide guidelines for subordinate-level managers to formulate their objective.

Manager Objective Setting: Each manager in the organization must now determine the objectives for his business. This procedure takes place in three general steps: identifying key result areas, writing objectives, and negotiating with the boss. First, the manager must identify the key result areas of responsibility that are assigned to this unit. It is important for the individual business manager to identify the areas of his unit where most of the results are obtained.

After a manager has identified his key areas of responsibility, he is ready to sit down and write his objectives. The main criteria that he should remember in writing objectives are that they should be specific, measurable, realistic, and result oriented. They should be specific in that there can be no confusion about what is expected. They must be measurable for later accountability. They must be realistic but still challenging. The objectives should be result oriented, concentrating on the output of the organization and not on its internal activities or procedures.

Objective Review - After the setting of objectives has been agreed upon by the subordinates, manager, and his boss, the stage is set for managing by these objectives. This managing process is responsibility of the subordinate manager, and it is interrupted only by mutually arranged, formal review sessions with the commander.

There are two types of objective reviews—intermediate and final. The purpose of the intermediate review is to determine progress and identify problems that stand in the way of accomplishing objectives. Most problems are not foreseeable at the time objectives are written; they appear only when action is taken to accomplish the objectives. The result of this intermediate session should be either to agree on a plan that resolves the blockage of objective accomplishment or change the objectives.

The final review is to determine objective accomplishment. In this session, the subordinate’s objectives are reviewed for the entire period. In addition, the session concentrates on the renewal of the objective-setting cycle by establishing a basis from which to plan the objectives for the next period.

Management by Objectives and Results Model

The general systems model for management by objectives and results is as follows (Drucker, 1979).

1. Define organizational goals
2. Identify performance indicators and standards (for goal)
3. Set division objectives consistent with goals.
4. Identify performance indicators and set standard (for objectives)
5. Define operational objectives for units or individuals set performance indicators and standards
6. Performance objectives A: Performance objectives B.
7. Assess feasibility of performance objectives (time)
10. Select operational strategy
11. Refine work plans and tasks.
12. Design results management subsystems.
13. Monitor operations

Management by Objectives – Objective setting

Setting objectives is the most difficult step in MBO. Objective setting looks beyond day-to-day activities to answer the question “what are we trying to accomplish?” Objective setting involves employees at all levels. Top managers set overall corporate objectives that define priorities for middle managers. Middle managers define objectives for the departments and divisions for which they are responsible. Corporate and departmental objectives are used to set objectives for individual employees.

Objectives may be both quantitative and qualitative depending on whether outcomes are measurable. Quantitative goals typically are described in numerical terms, such as “obtain 16 new sales account”, “Hire 3 new financial analyst”, or “increase the occupancy rate to 80 percent”. Qualitative objectives use terms such as “improve customer service”, “file report promptly”, and “increase minority hiring”. The qualitative statements must be sufficiently precise to permit realistic appraisal and evaluation.

Reviewing progress: A periodic review is important to insure that action plans are working. This review can occur in formally between managers and the subordinates, or the organization may wish to conduct three, six, and nine month reviews during the year. This periodic check up allows managers and employees to see whether they are on target and whether corrective action is necessary.

If the sales manager finds that quantity discounts are having no impact on sales, that idea may be dropped and the resources transferred to advertising. Managers and employees should not be locked into predefined behavior and must be willing to undertake whatever actions are necessary to produce meaningful results. The point of MBO is to achieve objectives. The action plan can be change whenever objectives are not being met.

Appraising overall performance: The final step is MBO is to evaluate whether annual objectives have been achieved for both individuals and departments. This appraisal carefully evaluates whether 16 new sales accounts were obtained, 3 new financial analyst were hired, or the organization achieved 80 percent occupancy rate.

Qualitative objectives, such as filling reports in a timely fashion or increasing minority hiring, also are carefully appraised success or failure to achieve objectives can become part of performance appraisal system and the designation of salary increases and other rewards. The appraisal or departmental and overall corporate performance shapes objectives for the next year. The management by objective cycle repeats itself on an annual basis. The specific application of MBO must fit the needs of each company.

Management by Objectives Characteristics

Management by objectives starts with the development of overall goals, which are parcelled through the organization in a top-down sequence until middle managers and other employees have been assigned some portion of these objectives as their own. The hierarchy of objectives can be developed through a systematic MBO-type system. Each organization can modify MBO to suit its own needs, but most systems involve the following steps:

- Overall goals for the organization are established.
- Major objectives are parcelled among department and managers in a hierarchical fashion and specific objectives in a collaborative manner.
- Action plans for achieving those objectives are specified and agreed upon by managers and subordinates.
• The action plans are carried out.
• Progress toward achieving objectives is periodically reviewed.
• Overall performance is appraised at the end of a specified time period – generally one year and new goals are established.
• A special advantage of the MBO system is that subordinates are given the latitude to determine how to achieve their objectives. Thus, even if goals are established in a top down fashion, employees have discretion in determining the work behaviors needed to reach those goals, freeing them to use their skills and creativity.

Elements of the Management by Objective System.

Stoner (2000) listed out the following six elements of management by objective system:
• Commitment to the Program: At every organizational level, managers commitment to achieving personal and organizational objectives and to the management by objectives process is required for an effective program.
• Top-Level Goal Setting: Effective management by objective programs usually start with the top managers, who determine the organization’s strategy and set preliminary goals that resemble annual objecting in their content and terms.
• Individual Goals: In an effective management by objective program, each manager and staff members has clearly defined job responsibilities and objectives. The purpose of setting objective in specific terms at every level is to help employee understand clearly just what they are expected to accomplish and to help each individual plan effectively to achieve his or her targeted goals.
• Participation: As a general rule, the greater the participation of both managers and employees in the setting of goals, the more likely the goals will be achieved. One of the hallmarks of successful quality management programs is the joint participation in setting goals.
• Autonomy in Implementation of Plans: One the objectives have been agreed upon the individual enjoys wide discretion in choosing the means for achieving them, without being second-guessed by higher ranking manager.
• Performance Review: Managers and employees periodically meet to review progress towards the objective.

Advantages of MBO

The principle behind Management by Objectives (MBO) is for employees to have a clear understanding of the roles and responsibilities expected of them. They can then understand how their activities relate to the achievement of the organization’s goal. MBO also places importance on fulfilling the personal goals of each employee.

The key strengths of MBO are followings ( Koontz and Co, 1976, p. 452):
• It focuses employees on desired results.
• Job satisfaction is increased.
• Allowing individual discretion in achieving goals, enhance as their growth.
• Both quality and quantity or performance seems to improve.
• It provides a vertical linkage between top and lower level goals.
• Motivation – Involving employees in the whole process of goal setting and increasing employee empowerment. This increases employee job satisfaction and commitment.
• Better communication and Coordination – Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the organization and also to solve many problems.
• Clarity of goals
• Subordinates tend to have a higher commitment to objectives they set for themselves than those imposed on them by another person.
• Managers can ensure that objectives of the subordinates are linked to the organization’s objectives.
There is participation in setting of goals, deciding the action course and in making decisions. MBO can be applied in any organization.

Weaknesses in managing by Objectives
With all its advantages, a system of managing by objectives has a number of weakness and shortcomings some are found in a system. Others are due to shortcomings in applying it. Here are some formulated by Koontz and Co. 1979, p. 454):

Failure to teach the philosophy: As simple as managing by objectives may seem, there is much to be understood and appreciated by managers who would put it into practice. This requires patient explanation of the entire program, what it is, how it works, why it is being done, what part it will play in appraising managerial performance, and above all, how participants can benefit.

Failure to give setters guidelines: Managing by objectives, like any other kind of planning, cannot work if those who are expected to set goals are not given needed guidelines. Managers must know what corporate goals are and how their activity fits in with them.

Goals are difficult to set: It should not be overlooked that truly verifiable goals are difficult to set, particularly if they are to have the right degree to “stretch” or “pull”, quarter in and quarter out, year in and year out. This may not be much more difficult than any kind of effective planning, although it will probably take more study and work to establish verifiable objectives that are formidable but attainable than to develop most plans, most of which tend only to lay out work to be done.

Goals Tends to be Short-Run: In almost all systems of operating under management by objectives, goals are set for the short term, seldom for more than a year, and often for a quarter or less. There is clearly the danger of emphasizing the short run, perhaps at the expense of the longer range. This means, of course, that superior must always assure themselves that current objectives, like any other short-run plan, are designed to serve long-range goals.

Failure to ensure network of Goals: In the obsession to set goals, there is ever the danger that one person’s objectives may be inconsistent with those of another. The production managers goals for low cost might be non supportive to the marketing manager’s goal of product availability or quality, of the financial manager’s of low inventory. An enterprise is a system. If goals, like all other plans, are not interconnected and mutually supportive, people will tend to pursue path that seem best for their own operations but may be detrimental to the company as a whole.

Setting Arbitrary Goals: One of the sure causes of failure is for the boss to set arbitrary goals for subordinates. While superiors must take final authority for approving the objectives of those who report to them, if they force goals on subordinates, they will destroy the feeding of commitment on the part of those who must achieve them. As a matter of fact, arbitrary and pressured goals represent one of the major causes of complaint expressed by managers, particularly at the middle and lower levels. The superior who does it is deprived of the intelligence, experience and often the know-how of problem solution that subordinates almost always have. Experience with cooperative goal setting sessions has led most of us to have considerable respect for the useful knowledge that often lies at lower levels in an organization.

Limitations of MBO
A system of MBO has certain weaknesses and limitations. Some of these are inherent in the system while some arise when introducing and implementing it. Some of the problems and limitations associated with MBO are:

1. Lack of Support of Top Management
   In traditional organizations, the authority is vested in the top management and it flow from top to bottom. In MBO, subordinates are given an equal opportunity of participation, which is resented by the top management. This system cannot succeed without the full support of top management.
2. Resentful Attitude of Subordinates
   The subordinates can also be resentful towards the system of MBO. Sometimes, while setting the goals, they may be under pressure to get along with the management and the objectives which are set may be unrealistically high or far too rigid. The subordinates, generally, feel suspicious of the management and believe that MBO is another play of the management to make them work harder and become more dedicated and involved.

3. Difficulties in Quantifying the Goals and Objectives
   The MBO will be successful only if the goals can be set in quantifiable terms. But if the areas are difficult to quantify and difficult to evaluate, it will not be possible to judge the performance of the employees. Moreover, MBO does not have any subjectivity in performance appraisal. It rewards only productivity without giving any consideration to the creativity of the employees.

4. Costly and Time Consuming Process
   MBO is quite costly and a time consuming process. There is a lot of paper work involved. Moreover, there are a lot of meetings and too many reports to be prepared, which add to the responsibilities and burden of the managers. Because of these reasons managers generally resist the MBO.

5. Emphasis on short Term Goals
   Under MBO, goals are set only for a short period, say for six months or one year. This is because of the reason that goals being quantitative in nature, it is difficult to do long range planning. Since the performance of the subordinate is to be reviewed after every six months or one year, they tend to concentrate on their immediate objectives without caring for the long range objectives of the enterprise. This emphasis on short term goals goes against the organizational efficiency and effectiveness and is not a healthy sign.

6. Lack of Adequate Skills and Training
   Most of managers lack adequate skills, knowledge and training required in interpersonal interaction which is required in the MBO. Many managers tend to sit down with the subordinate, dictate the goals and targets with no input permitted from the subordinates and then demand that the goals be achieved in a specified time. Whether the goals are realistic or not does not enter the picture. In this type of environment, two way communications is not there and objectives are imposed on the subordinates. This destroys their morale, initiative and performance.

7. Poor Integration
   Generally, the integration of the MBO with the other systems such as forecasting and budgeting is very poor. This lack of integration makes the overall functioning of the system very poor.

Summary of MBO

MBO is essentially a continuous and cyclic process which follows a logical pattern of events:
- Top management formulates a strategic plan by defining the corporate aims and objectives in the short, medium and long term in the key areas of its business.
- Courses of action and the resources required to meet these objectives are incorporated in a tactical plan.
- Unit objectives and the roles of individual managers are clarified and the desired outputs agreed.

Improvement possibilities are identified and incorporated in individual and corporate improvement plans. After allowing time for action, systematic reviews are carried out to assess the performance results. Objectives and output requirement are updated.

Additionally, MBO requires:

1. An organization structure providing maximum freedom and flexibility in which to operate.
2. Management control and information in a form and frequency which enables quick decisions and progress checks to be made.
1.3.4 Modern Theory of Organization

The differentiation of its development influencing thru development of the entirely new approaches of the investigation into the organization, is characteristic of the post-war development of the scientific organization. The other scientific disciplines, for instance, mathematics, cybernetics, and the behavior sciences had a decisive influence upon the development of the new approaches of the scientific investigation in the organization. It is characteristically, however, of the most new approaches that they criticize in reject the classical organization conceptions. The most vehement critics of the classical and of the neoclassical theory of organization are organizational psychologists and sociologist who, in the main, reject the formalistic aspects of the organization. The formalistic aspects within the organization, however, were the most significant for the classical and neoclassical organization theoreticians. With regard to the numerous and different critics of the classical and neoclassical organization theory we can roughly range all the organization theoreticians into two basic groups. Into one group there could be ranged all those who think that the classical organizational conceptions are naive and for this reason not practicable within a contemporary organizations. And in the second group we can range those who think that the principles of the classical writers of organization are generally operative, only they must be correctly understood and one must know how to use them.

An extreme treatment of the organizational phenomena cannot be correct. We can state that all of those organization conception and principles of the classical organization science relating to the organization of the material and financial aspects have and will have also in the future a certain practical value if we know how to adapt them to the changed conditions of the operating. But we can also say that those organizational conceptions and principles that deal with the human aspects within the organization are inappropriate to the contemporary organizations of associated labor.

Among the different approaches in the contemporary organization theory are the most characteristically the System Theory (system approach) in the investigating into organization, and the Human Resources Theory. Many others which have been developed in Europe had not significant influence upon the further development on scientific investigation within the organizations.

1.3.4.1 Human Resources Theory

The numerous criticism of the human relation theory and the qualitative changes involved by this criticism in the investigation into organization developed a new school or direction in the investigating into the scientific organization, known as Human Resources. It was developed in the USA about 1960's. The fundamental basis of the human resource theory was the human relations theory treating the organization as a simple social system consisting of small working groups. It central areas of the investigation were the working conditions, the work relation and methods and the techniques of the cooperation of the employed in decision-making on the less important aspects of their work. This form of participation of the employed were aiming at creating favorable relationships to satisfy and make happy the worker. The promoters of human relation theory presumed that the satisfaction of the social needs of the employed would solve all the problems within the organization.

The human resource theory deals with the organization as with a socio-technical system in which the human elements are the most important ones. By such a definition of the organization it integrates the result of the classical theory of organization conceiving of the organization only as a technical system and the results of the human relations theory treated the organization as a simple social system. From this point of view it is also in agreement with the system theory.

The central problem of the investigation into the human resources theory are the human aspects of the organization-The basic assumption of this theory in that the efficiency of the organization depends upon, first of all, the organization of people or upon the use of human abilities being inexhaustible potentials of an improvement of the origination efficiency.

The human resources theory is based upon the motivation theory. But it is interested only in those conceptions that related to the satisfaction of human needs of the highest level, of the so called ego needs. The sat-
isfaction of these needs integrates the objectives of the individual with those of the organization. And these exerts its influence upon a high realization of the organizational objectives.

The most investigated areas of the human resource theory are, first of all, the following (Likert, 1962, p. 223 – 233):

- Management philosophy
- Managerial behavior
- Communication processes
- Motivation
- Mutual interacting
- Decision-making
- Goals setting
- Team building
- Supervisory processes
- Performance.

The representatives of the human resource theory have so far created a series of interesting organizational conceptions. The most significant among them are the Likert’s system of management, in particular the system 4. Finding of Likert’s investigation had and still have a great influence upon the further development of modern organization theories.

1.3.4.2 System Theory of the Organization

It is a characteristically of the organizational theories of the individual school within the common development of the scientific organization up to the cybernetics was that they in part treated the organizational phenomena. The classical theories of organization were, in the first place, interested in the material and financial aspects of the organization, and the human relations and human resources theories in the psychological aspects of the organization. The common characteristically feature of the organization theories up to the cybernetics in that that they do not take into consideration the system approach in treating the organization as a system whole and its parts as subsystems. The observation of the individual phenomena and of the partial results is also characteristically feature of theirs. The system method of treatment is relating to the investigating into the component part of the organizational systems in the multidirectional connections between the causes and effects in the organization. It is conceived of the feed forward and feedback information.

By a system approach we deal with the organization as a system whole consisting of the mutually connected parts. The system approach means dealing with these parts in their mutual connection as a part of the whole. A no system approach in the investigating into the organization, however, means dealing with the parts of a whole, irrespective of the mutual connection. It is just for this reason that the no system dealing with the organization is only a partial one and cannot explain the organizational phenomena in their totality. The totality of the organization and of its phenomena can be explained only by the system approach. The organizational theory must be, therefore, system one. All the other scientific disciplines dealing only with some aspects of the organization, however, should not be called the organization theory. But we are sorry to recognize that there still is a lot of obscurities in the system approach of the investigating into the organization. The achievement made so far, however, already call our attention to the fact that the system approach in the investigating into the organization will assert itself for it makes possible a better understanding of the totality of the organization. The trends in the development of the organizations are reflected in their complexity of operations. Only the complex system can carry out the complex processes. And for treating the complex system and their processes it is necessary to use the same method. We can state that the future development of the organization science will use the system method, irrespective of the possible different approaches and the development of the scientific organization.

With the emergence in the 1960s of the open systems perspective, human relations concerns related to employee satisfaction and development broadened to include a focus on organizational growth and survival. According to the open systems perspective, every organization is a system a unified structu of interrelated subsystems and it is open subject to the influence of the surrounding environment. Together, these two ideas form the central tenet of the open systems approach, which states that organizations
whose subsystems can cope with the surrounding environment can continue to do business, whereas organizations whose subsystems cannot cope will not survive.

In one of the seminal works on the open systems perspective, Daniel Katz and Robert Kahn identified the process shown in Figure 1.6 as essential to organizational growth and survival. This process consists of the following sequence of events (D. Katz and R. L. Kahn, 1966, p.):

1. Every organization imports inputs, such as raw materials, production equipment, human resources, and technical know-how, from the surrounding environment. For instance, Shell Oil Company hires employees and, from sources around the world, acquires unrefined oil, refinery equipment, and knowledge about how to refine petroleum products.
2. Some of the inputs are used to transform other inputs during a process of throughput. At Shell, employees use refinery equipment and their own know-how to transform unrefined oil into petroleum products such as gasoline, kerosene, and diesel fuel.
3. The transformed resources are exported as outputs—saleable goods or services—to the environment. Petroleum products from Shell’s refineries are loaded into tankers and transported to service stations throughout North America.
4. Outputs are exchanged for new inputs, and the cycle repeats. Shell sells its products and uses the resulting revenues to pay its employees and purchase additional oil, equipment, and know-how.

According to Katz and Kahn, organizations will continue to grow and survive only as long as they import more material and energy from the environment than they expend in producing the outputs exported back to the environment. Information inputs that signal how the environment and organization are functioning can help determine whether the organization will continue to survive. Negative feedback indicates a potential for failure and the need to change the way things are being done.

Figure 1.2: The Open System Perspective

In Katz and Kahn’s model, the environment surrounding an organization is both the source of needed resources and the recipient of transformed products. Accordingly, organizational survival depends on sensing that environment and adjusting to its demands. Describing environments and their associated demands so as to improve this sensing and adjustment process was the goal of Fred Emery and Eric Trist, two early theorists of the open systems perspective (F. E. P. Emery and E. Trist, 1965, p. 21 – 32).

After noting that every organization’s environment is itself composed of a collection of more or less interconnected organizations supplier companies, competitors, and customer firms. Emery and Trist proposed the existence of four basic kinds of environments. The first kind, which they labeled the placid random environment, is loosely interconnected and relatively unchanging. Organizations in such environments operate independently of one another, and one firm’s decision to change the way it does business has little effect on its rivals. These organizations are usually small for example, landscape maintenance companies,
construction firms, and industrial job shops and can usually ignore each other and still stay in business by catering to local customers.

**Placid clustered environments** are more tightly interconnected. Under these conditions, firms are grouped together into stable industries. Environments of this sort require organizations to cope with the actions of a market fairly constant group of suppliers, competitors, and customers. As a result, companies in placid clustered environments develop strategic moves and countermoves that correspond to competitors’ actions. Grocery stores in the same geographic region often do business in this type of environment, using coupon discounts, in-store specials, and similar promotions to lure customers away from other stores.

**Disturbed reactive environments** are as tightly interconnected as placid clustered environments, but are considerably less stable. Changes that occur in the environment itself have forceful effects on every organization. For instance, new competitors from overseas, by increasing automation and changing consumer tastes in the U.S. automobile market, revolutionized the domestic auto industry in the 1970s and 1980s. In response, GM and Ford had to change their way of doing business, Chrysler ultimately merged with Germany’s Daimler-Benz to become Daimler-Chrysler, and a fourth long-time manufacturer, American Motors, ceased to exist. In such circumstances, organizations must respond not only to competitors’ actions but also to changes in the environment itself. Owing to their unpredictability, it is difficult to plan how to respond to these changes.

**Turbulent fields** are extremely complex and dynamic environments. Companies operate in multiple markets. Public and governmental actions can alter the nature of an industry virtually overnight. Technologies advance at lightning speed. The amount of information needed to stay abreast of industrial trends is overwhelming. As a result, it is virtually impossible for organizations to do business in any consistent way. Instead, they must remain flexible in the face of such uncertainty, staying poised to adapt themselves to whatever circumstances unfold. Today’s computer and communications industries exemplify this sort of environment. Technological change and corporate mergers are creating and destroying entire categories of companies at ever-increasing rates.

Emery and Trist suggested that organizations must respond in different ways to different environmental conditions. Tighter environmental interconnections require greater awareness about environmental conditions, and more sweeping environmental change necessitates greater flexibility and adaptability. Other open systems theorists, including Paul Lawrence, Robert Duncan, and Jay Galbraith, have similarly stressed the need for organizations to adjust to their environments. Their ideas, and those of other open systems theorists, form the basis of several current models of macro organizational behavior, described in later chapters of this book.

### 1.3.4.6 The post-modern Theory of organization

In above mentioned organizations theories we did not embrace the development of organizational theories which have been developed after the middle of 80th. In that time the economic and organization circumstances became changed pretty much. The ration between the supply and demand of goods on the world market was change. Supply exceeded demand of the goods. Many organization were not be able to compete and they got to bankrupt. After the year 1880 many new approaches were developed into organizational investigation. The most significant conceptions or organizational theories which have been developed after that time were:

- Reengineering
- Learning organization
- Organization development
- Team building
- Theories of quality
- Innovative organization
- 7 – S Model
- System of twenty keys
- Theory of business excellence
Review Questions

- How does an organization enable its members to accomplish a goal that might not be achievable by individuals working alone? Why aren’t organizations formed to achieve purposes that people can accomplish individually?
- What is an organization’s mission? Its division of labor? Its hierarchy of authority? How do these three organizational attributes fit together to define the nature of management?
- What are the two key ideas underlying the open systems perspective? What central principle do they support? Explain the cycle of events described by Katz and Kahn’s open systems model. Why is it important for managers to be able to diagnose environmental conditions and adapt their organizations to environmental changes as they occur?
- Explain the contingency model constructed from the five perspectives of management thought described in this chapter. If you were a manager having problems with employee satisfaction, which perspective would you consult for advice? If you were concerned about efficiency, which perspectives could probably help you?
- What are the reasons that the notion of organization can not be unequivocally defined?
- How can term of the organization be defined?
- How do you understand organization as a scientific discipline?
- Which are more significant turning-points in the development of scientific organization?
- What are the main characteristic features of a classical theory of organization?
- What are the contributions to the treasury of organizational science of the scientific management?
- How would you describe the Fayolism?
- What are the main suppositions of bureaucratic organization model?
- What approaches are most important into neoclassical theory of organization?
- What are more important characteristics of human relations theory?
- How would you evaluate the human resources theory?
- How would you define system approach?
- What are the perspectives of development of organizational science?
- What are the problems militating against effective utilization of management by objective in an organization?
- To what extent do both managers and employees participate in the setting of goals to be achieved in the organization?
- To what extent are employees given appropriate authority and responsibilities for effective management by objective?
- To what extent do motivation determines employee’s performance towards achieving the objectives of the organization?

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2 BUSINESS PROCESS REENGINEERING

2.1 Introduction

Crazy times call for crazy organizations.
Tom Peters

Organizations are forced to change faster and more radically than ever.
John P. Kotter

Information technology has profoundly changed the way we do business during the past decade. Business process reengineering (BPR) offers one method for managing this change while at the same time making it possible to achieve dramatic gains in business performance.

Although research into business processes was conducted earlier, e.g. IBM, (Engelke, et al, 1984) and CI-MOSA (AMICE, 1989), it was Michael Hammer (1990) who first raised the visibility of business processes with the introduction of BPR—Business Process Reengineering, in the early 90’s. In subsequent years, BPR has often been associated with drastic change and downsizing initiatives, rather than improving practices and resulted many failed reengineering mega-projects. It was based on an examination of the way information technology was transforming business processes.

Management (BPM) in the new millennium has given renewed focus to the process promise and has been a solid, yet quiet, business revolution. To understand why an entire enterprise would begin instituting process structure and transforming management to business process management, we must understand the primary characteristics of the business process.

The traditional “Function Enterprise” is the product of the Industrial Revolution in which the guiding principle for organizing enterprises by function is the distribution of work by labor specialization. In the Process generation, the functional organization of enterprises may not completely disappear, but rather be transformed into the context or the grid for performing processes that brings value to customers. Technological superiority, innovation, or longevity are no longer makes or breaks companies—it is how well they are organized to respond to and serve their customers.

The only way to achieve such sustainable customer satisfaction and results is to become a Process organization.

2.2 Organizational Change

Modern Theory of Organization developed two basic types of strategic organizational changes (http://www.scribd.com):

Evolutionary change, gradual and incremental - adds small adjustments to strategy and structure to handle environmental changes:
- Socio-Technical Systems Theory
- Total Quality Management
- Organizational Development

Revolutionary change, sudden and drastic - results in new operating methods, goals and structure:
- Restructuring
- Quality programs
- Mergers and Acquisitions
- Cultural Change
2.3 Notion of Reengineering

Reengineering, a term popularized by Hammer and Champy, involves rethinking business processes, activities that cross functional boundaries. Processes, not functions, are the focus of attention. Reengineering involves reorganizing a process, such as materials management, to create value. Vertical and horizontal communication and coordination are difficult because purchasing, production control, and distribution have their own hierarchies. Managers focus on business processes, which is any activity that cuts across functional boundaries. Slow production and increased costs lead companies to redesign materials management. Three areas of responsibility can be integrated into one function with one hierarchy of managers, and this arrangement improves communication and coordination.

Steps for successful reengineering: organize around outcomes not tasks; have those who use the output of the process perform the process; and decentralize decision-making to the point where the decision is made. Reengineering can improve integration between functions and solve control problems. If a company becomes involved in large, complex activities, it needs a more complex structure.

2.4 The Idea of Reengineering

Business process reengineering (BPR) began as a private sector technique to help organizations fundamentally rethink how they do their work in order to dramatically improve customer service, cut operational costs, and become world-class competitors. A key stimulus for reengineering has been the continuing development and deployment of sophisticated information systems and networks. Leading organizations are becoming bolder in using this technology to support innovative business processes, rather than refining current ways of doing work.

Business process reengineering is one approach for redesigning the way work is done to better support the organization’s mission and reduce costs. Reengineering starts with a high-level assessment of the organization’s mission, strategic goals, and customer needs. Basic questions are asked, such as “Does our mission need to be redefined? Are our strategic goals aligned with our mission? Who are our customers?” An organization may find that it is operating on questionable assumptions, particularly in terms of the wants and needs of its customers. Only after the organization rethinks what it should be doing, does it go on to decide how best to do it (Business Process Reengineering Assessment Guide, USA General Accounting Office, Version 3, May 1997).

Within the framework of this basic assessment of mission and goals, reengineering focuses on the organization’s business processes--the steps and procedures that govern how resources are used to create products and services that meet the needs of particular customers or markets. As a structured ordering of work steps across time and place, a business process can be decomposed into specific activities, measured, modeled, and improved. It can also be completely redesigned or eliminated altogether. Reengineering identifies, analyzes, and redesigns an organization’s core business processes with the aim of achieving dramatic improvements in critical performance measures, such as cost, quality, service, and speed.

Reengineering recognizes that an organization’s business processes are usually fragmented into sub processes and tasks that are carried out by several specialized functional areas within the organization. Often, no one is responsible for the overall performance of the entire process. Reengineering maintains that optimizing the performance of sub processes can result in some benefits, but cannot yield dramatic improvements if the process itself is fundamentally inefficient and outmoded. For that reason, reengineering focuses on redesigning the process as a whole in order to achieve the greatest possible benefits to the organization and their customers. This drive for realizing dramatic improvements by fundamentally rethinking how the organization’s work should be done distinguishes reengineering from process improvement efforts that focus on functional or incremental improvement.

BPR betokened an innovative approach to corporate change, and was depicted by its creators as a “fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical,
contemporary measures of performance, such as cost, quality, service, and speed” (Hummer, M., Reengineering work. Don’t automate, obliterate, Harvard Business Review, 1990).

The technique required analyzing a company’s central processes and reconstructing them in a more efficient manner and in a fashion that arrogantly disregarded long-established (but often inapplicable) functional distinctions. Functional silos were often defensive of information, for example, and of their own position in the scheme of things. At best, this was inefficient. Slicing the silos into their different processes and rebuilding them in a less vertical way exposed excess fat and prompted corporations to look at new ways to streamline themselves (http://investuristic.com).

BPR’s inventors, Hammer and James Champy, affirmed that reengineering had a broader importance than just processes. It applied to all branches of an organization, and it had a noble purpose. “I think that this is the work of angels,” said Hammer in one of his more fancy moments. “In a world where so many people are so deprived, it’s a sin to be so inefficient.” (Hammer, M.: op. cit.)

Many analysts, however, saw reengineering as a return to the purely physical ideas of Frederick Taylor, and Scientific management. Others saw it as a lightweight intellectual justification for downsizing, a process of scaling down that was being forced on many corporations by developments in it.

One of the flaws of the idea, which the originators themselves recognized, was that reengineering became something that managers were only too happy to enforce on others but not on themselves.

BPR followed a favored road for popular management ideas: from a university academic’s research, via a management consultancy’s marketing (Champy was the boss of CSC, a management consulting firm) and a best-selling book, into (briefly) a perceived elixir for all companies’ ills. It was helped by the fact that the book’s authors (Hammer in particular) were clearly quotable.

### 2.5 Definition of the Business Process Reengineering (BPR)

The Definition of the Business Process Reengineering (BPR) comprises four keywords: fundamental, radical, dramatic and processes (http://www.doc.ic.ac.uk/-surprise-95/journl/vol12/tmkarticle2.html).

**Fundamental** - Why do we do what we do? Why do we do it the way we do? These basic questions lead people to understand the fundamental operations and to think why the old rules and assumptions exist.

**Radical** - disregarding all existing structures and procedures, and inventing completely new ways of accomplishing work.

**Dramatic** - not about making marginal improvements or modification but about achieving dramatic improvements in performance.

**Processes** - the most important concept in reengineering; task-based thinking needs to shift to process-based thinking in order to gain efficiency.

In classic business structure, organization is divided into departments, and process is separated into simplest tasks distributing across the departments. The preceding order-fulfillment example shows that the fragmented tasks - receiving the order form, picking the goods from the warehouses and so forth - are delayed by the artificial departmental boundaries. This type of task-based thinking needs to shift to process-based thinking in order to gain efficiency.

There are three kinds of companies that undertake reengineering in general. First are companies that find themselves in deep trouble. They have no choice. Second are companies that foresee themselves in trouble because of changing economic environment. Third are companies that are in the peak conditions. They see reengineering as a chance to further their lead over their competitors.
2.6 Business Process

Process is a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer.

Typically, process improvements fall into three categories: quick hits, incremental improvement, and reengineering (http://en.wikipedia.org/wiki/Business-process):

Quick hits. These are typically low risk, easily achievable efforts that provide immediate payback opportunities (typically within a few months).

Incremental improvement. This focuses on closing small performance gaps, delivers small degrees of change that achieve small but meaningful business results.

Reengineering. This demonstrates breakthrough thinking and aims for dramatic business results. Unlike quick hits and incremental improvement, reengineering is a form of organizational change characterized by dramatic process transformation.

2.7 Principles for BPR

Hammer and Champy point to the following as principles for BPR (Hammer, M.: op. cit.):

- Several jobs are combined into one,
- Workers make decisions,
- The steps in the process are performed in a natural order,
- Processes have multiple versions, i.e. processes are designed to take account of different situations,
- Processes are performed when it make the most sense, e.g. if the accounting department needs pencils, it is probably cheaper for such a small order to be purchased directly from the office equipment store around the block than to be ordered via the firm’s purchasing department,
- Checks and controls are reduced to the point where they make economic sense,
- Reconciliation is minimized,
- A case manager provides a single point of contact at the interface between processes.
2.8 Continuous Process Improvement and Business Process Reengineering

If you have ever waited in line at the grocery store, you can appreciate the need for process improvement. In this case, the “process” is called the check-out process, and the purpose of the process is to pay for and bag your groceries. The process begins with you stepping into line, and ends with you receiving your receipt and leaving the store. You are the customer (you have the money and you have come to buy food), and the store is the supplier.

The process steps are the activities that you and the store personnel do to complete the transaction. In this simple example, we have described a business process. Imagine other business processes: ordering clothes from mail order companies, requesting new telephone service from your telephone company, developing new products, administering the social security process, building a new home, etc.

Business processes are simply a set of activities that transform a set of inputs into a set of outputs (goods or services) for another person or process using people and tools. We all do them, and at one time or another play the role of customer or supplier.

You may see business processes pictured as a set of triangles as shown below. The purpose of this model is to define the supplier and process inputs, your process, and the customer and associated outputs. Also shown is the feedback loop from customers.

Improving business processes is paramount for businesses to stay competitive in today’s marketplace. Over the last 10 to 15 years companies have been forced to improve their business processes because we, as customers, are demanding better and better products and services. And if we do not receive what we want from one supplier, we have many others to choose from (hence the competitive issue for businesses). Many companies began business process improvement with a continuous improvement model. This model attempts to understand and measure the current process, and make performance improvements accordingly.

This method for improving business processes is effective to obtain gradual, incremental improvement. However, over the last 10 years several factors have accelerated the need to improve business processes. The most obvious is technology. New technologies (like the Internet) are rapidly bringing new capabilities to businesses, thereby raising the competitive bar and the need to improve business processes dramatically.

Another apparent trend is the opening of world markets and increased free trade. Such changes bring more companies into the marketplace, and competing becomes harder and harder. In today’s marketplace, major changes are required to just stay even. It has become a matter of survival for most companies.

As a result, companies have sought out methods for faster business process improvement. Moreover, companies want breakthrough performance changes, not just incremental changes, and they want it now. Because the rate of change has increased for everyone, few businesses can afford a slow change process. One approach for rapid change and dramatic improvement that has emerged is Business Process Reengineering (BPR).

BPR relies on a different school of thought than continuous process improvement. In the extreme, reengineering assumes the current process is irrelevant - it doesn’t work, it’s broke, forget it. Start over. Such a clean slate perspective enables the designers of business processes to disassociate themselves from today’s process, and focus on a new process. In a manner of speaking, it is like projecting yourself into the future and asking yourself: what should the process look like? What do my customers want it to look like? What do other employees want it to look like? How do best-in-class companies do it? What might we be able to do with new technology? (http://www.prosci.com/intro.htm).

Such an approach is pictured below. It begins with defining the scope and objectives of your reengineering project, then going through a learning process (with your customers, your employees, your competitors and
non-competitors, and with new technology). Given this knowledge base, you can create a vision for the future and design new business processes. Given the definition of the “to be” state, you can then create a plan of action based on the gap between your current processes, technologies and structures, and where you want to go. It is then a matter of implementing your solution.

Figure 2.1: Business Process Reengineering Cycle

The extreme contrast between continuous process improvement and business process reengineering lies in where you start (with today’s process, or with a clean slate), and with the magnitude, and rate of resulting changes.

Over time many derivatives of radical, breakthrough improvement and continuous improvement have emerged that attempt to address the difficulties of implementing major change in corporations. It is difficult to find a single approach exactly matched to a particular company’s needs, and the challenge is to know what method to use when, and how to pull it off successfully such that bottom-line business results are achieved.

2.9 Why companies reengineer?

Companies reengineer for a variety of compelling business reasons. First, management determines that a significant gap exists between actual and desired results, creating a business problem. At times, senior management translates this business problem into process performance problems and opportunities. This allows the company to focus on fundamentally transforming the target process(es), thus improving business results and solving the problem (Namchul Shin, Donald F. Jemella: Business Process Reengineering and Performance Improvement, The case of Chase Manhattan Bank).

At this early stage of identifying the need for radical change, senior management commitment and sponsorship is essential in making the decision to reengineer. Traditionally, nearly 70% of all reengineering projects fail. That extreme failure rate has often been ascribed to lack of senior management sponsorship or failure to make an ongoing commitment to the tough management decisions needed to effect these changes to the work environment (Ibidem).

What reengineering is and is not. By definition, reengineering is “radical change, fast”. Reengineering is a fundamental rethinking and transformation of an integrated set of business processes. It requires not only a redesign of business processes but a concurrent examination and redesign of the information technologies and organization that support these processes. There are two proven problem-solving techniques: analytical and creative. The best results are attained when the two methods are used in parallel.
Understanding that process transformation is ultimately about doing work differently is the key to successful transformation. Hammer puts it more succinctly - Reengineering is rethinking work (Ibidem).

The logic behind BPR is that many organizations are not organized in an efficient manner. They are functionally structured with many handoffs and no entity other than the CEO responsible for the end-to-end process. This disorganized approach is due to organizations evolving over time and processes evolving with them in a piecemeal manner. This occurs without anyone taking a holistic view and determining whether or not the way processes are performed make sense.

While IT is generally seen as the panacea for inefficiency, Hammer and Champy argue that the implementation of IT systems are largely a disappointment as they tend to mechanize old ways of doing business, and therefore only result in minor improvements. Instead what is needed is a complete rethink of how the business’ operations are managed.

2.10 BPR and Organization

BPR may sometimes be mistaken for the following four tools (Hasan Al-Bekhit, powerpoint presentation):

1. Automation is an automatic, as opposed to human, operation or control of a process, equipment or a system; or the techniques and equipment used to achieve this. Automation is most often applied to computer (or at least electronic) control of a manufacturing process.
2. Downsizing is the reduction of expenditures in order to become financial stable. Those expenditures could include but are not limited to: the total number of employees at a company, retirements, or spin-off companies.
3. Outsourcing involves paying another company to provide the services a company might otherwise have employed its own staff to perform. Outsourcing is readily seen in the software development sector.
4. Continuous improvement emphasizes small and measurable refinements to an organization’s current processes and systems. Continuous improvements’ origins were derived from total quality management (TQM) and Six Sigma.

2.11 Example of Reengineering: IBM Credit

IBM Credit Corporation is in the business of financing the computers, software, and services that the IBM Corporation sells. The IBM Credit’s operation comprises of five steps as follows (Example of Reengineering: IBM Credit):

1. When an IBM field sales representative called in with a request for financing, one of the operators in the central office wrote down the request on a piece of paper.
2. The request was then dispatched to the credit department where a specialist checked the potential borrower’s creditworthiness, wrote the result on the piece of paper and dispatched to the next link in the chain, which was the business practices department.
3. The business practices department was in charge of modifying the standard loan covenant in response to customer request. The special terms to the request form would be attached to the request if necessary.
4. Next, the request went to the price department where a price determined the appropriate interest rate to charge the customer.
5. Finally, the administration department turned all this information into quote letter that could be delivered to the field sales representative.

This entire process consumed six days on average. From the sales representative’s point of view, this turnaround was too long that the customer could be seduced by another computer vendor. Furthermore, no-one would tell where the request was and when it could be done.

To improve this process, IBM Credit tried several fixes. They decided, for instance, to install a control desk, so they could answer the sale representative’s question about the status of the request. That is, instead of
forwarding the request to the next step in the chain, each department would return the request to the control desk where an administrator logged the completion of each step before sending out the request again. This fix did indeed solve the problem, however, at the expense of adding more time to the turnaround.

Eventually, two senior managers at IBM Credit took a request and walked themselves through all five steps. They found that performing the actual work took in total only ninety minutes. Clearly, the problem did not lie in the tasks and the people performing them, but in the structure of the process itself.

In the end, IBM Credit replaced its specialists - the credit checkers, prices and so on - with generalists. Now, a generalist processes the entire request from beginning to end i.e.

How could one generalist replace four specialists? The old process design was, in fact, found on deeply held (but deeply hidden) assumptions: that every bid request was unique and difficult to process, thereby requiring the intervention of four highly trained specialists. In fact, this assumption was false; most requests were simple and straightforward: finding a credit rating in a database, plugging numbers into a standard model, pulling clauses from a file. These tasks fall well within the capability of a single individual when he or she is supported by an easy-to-use computer system. IBM Credit therefore developed a new, sophisticated computer to support the generalists. In most situations, the system provides guidance and data to generalists. In really tough situations, he or she can get help from a small pool of real specialists who are assigned to work in the same team.

The new turnaround becomes four hours instead of six days. The company achieved a dramatic performance breakthrough by making a radical change to the process - i.e. the definition of reengineering. IBM Credit did not ask, “How do we improve the calculation of a financing quote? How do we enhance credit checking?” It asked instead, “How do we improve the entire credit issuance process?” Moreover, in making its radical change, IBM Credit shattered the assumption that every request needed specialists to perform.

2.12 Summary

In today’s ever-changing world, the only thing that doesn’t change is ‘change’ itself. In a world increasingly driven by the three Cs - Customer, Competition and Change, companies are on the lookout for new solutions for their business problems (Hammwe, M., Champy, J., 1993).

Recently, some of the more successful business corporations in the world seem to have hit upon an incredible solution: Business Process Reengineering. BPR advocates that enterprises go back to the basics and reexamine their very roots. It doesn’t believe in small improvements. Rather it aims at total reinvention. As for results: BPR is clearly not for companies who want a 10% improvement. It is for the ones that need a ten-fold increase. According to Hammer and Champy the last but the most important of the four key words is the word-‘process.’ BPR focuses on processes and not on tasks, jobs or people. It endeavors to redesign the strategic and value added processes that transcend organizational boundaries.

While there are some similarities in how firms approach reengineering, each firm should tailor its BPR efforts to satisfy its unique organizational conditions, rather than following a universal approach.

Integrate people, technology and organizational culture to respond to rapidly changing technical and business environment and customer’s needs to achieve big performance gains.

Discussion Questions

1. Which are the keywords of reengineering?
2. Can you assume which kind of companies undertakes reengineering?
3. What is in focus of change with reengineering?
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3 LEARNING ORGANIZATION

3.1 Introduction

The learning organization is one of very important post-modern theory of organization. Many organizational theoreticians think that that kind of organization is the most appropriated type of organization into present situation and also it will be organization of the future.

Peter Senge with his title The Fifth Discipline is considered to be the most significant factor in popularizing the notion of the learning organization.

According to Senge (1990) learning organizations are organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together and where are continually learning how to learn.

Pedler (1991) says that The Learning Company is a vision of what might be possible. It is not brought about simply by training individuals; it can only happen as a result of learning at the whole organization level. Learning Company is an organization that facilitates the learning of all its members and continuously transforms itself.

There is also another definition from Watkins and Marsick (1992) who claim that Learning organizations are characterized by total employee involvement in a process of collaboratively conducted, collectively accountable change directed towards shared values or principles.

It is very hard to tell which or that the only one definition gives us the best true picture of Learning organization. All these definitions are quiet similar however each of them is specific some way. The main idea of all three definitions is however very clear. The core principle of Learning organization is that people as a part of the whole organization are continuously learning, transforming and changing towards the shared values and principles.

3.2 The learning society and the knowledge economy

The emergence of the idea of the ‘learning organization’ is wrapped up with notions such as ‘the learning society’. The loss of the stable state means that our society and all of its institutions are in continuous processes of transformation. We cannot expect new stable states that will endure for our own lifetimes.

We must learn to understand, guide, influence and manage these transformations make the capacity for undertaking them integral to ourselves and to our institutions. We must, in other words, become adept at learning. We must become able not only to transform our institutions, in response to changing situations and requirements; we must invent and develop institutions which are ‘learning systems’, that is to say, systems capable of bringing about their own continuing transformation.

One of Schon’s great innovations was to explore the extent to which companies, social movements and governments were learning systems – and how those systems could be enhanced. He suggests that the movement toward learning systems is, of necessity, ‘a groping and inductive process for which there is no adequate theoretical basis’. The business firm, Donald Schon argued, was a striking example of a learning system. He charted how firms moved from being organized around products toward integration around ‘business systems’ He made the case that many companies no longer have a stable base in the technologies of particular products or the systems build around them.

Subsequently, we have seen very significant changes in the nature and organization of production and services. Companies, organizations and governments have to operate in a global environment that has altered its character in significant ways.
Productivity and competitiveness are, by and large, a function of knowledge generation and information processing: firms and territories are organized in networks of production, management and distribution; the core economic activities are global – that is they have the capacity to work as a unit in real time, or chosen time, on a planetary scale.

Companies need to invest not just in new machinery to make production more efficient, but in the flow of know-how that will sustain their business. Organizations need to be good at knowledge generation, appropriation and exploitation.

Companies are seeking to improve existing products and services (continuous improvement), and innovation (breakthrough strategies). This has resulted in a plethora of initiatives such as TQM (Total Quality Management) and BPR (Business Process Reengineering). But companies are finding that such programmes succeed or fail depending on human factors, such as skills, attitudes and organizational culture. It also appears that many implementations are geared to highly specified processes, defined for anticipated situations. The current interest in the ‘Learning organization’ stems from the recognition that these initiatives, by themselves, often do not work. There is something more what is needed and it is to:

- cope with rapid and unexpected changes where existing ‘programmed’ responses are inadequate,
- provide flexibility to cope with dynamically changing situations,
- allow front-line staff to respond with initiative based on customer needs vs. being constrained by business processes established for different circumstances.

According to Kerka (1995) learning organizations:

- provide continuous learning opportunities,
- use learning to reach their goals,
- link individual performance with organizational performance,
- foster inquiry and dialogue, making it safe for people to share openly and take risks,
- embrace creative tension as a source of energy and renewal,
- are continuously aware of and interact with their environment.

For proper understanding of the Learning organization it is very important to understand learning disabilities which are parts of the most companies all over the world.

### 3.3 Learning disability

Few large corporations live even half as long as a person. In 1983 a Royal Dutch/Shell survey found that one third of the firms in the Fortune “500” in 1970 had vanished. Shell estimated that the average lifetime of the largest industrial enterprises is less than forty years, roughly half the lifetime of a human being (Senge, 1990, p. 18-25).

In most companies that fail there is abundant evidence in advance that the firm is in trouble. This evidence goes unheeded, however, even when individual managers are aware of it. The organization as a whole cannot recognize impending threats, understand the implications of those threats, or come up with alternative.

Most organizations learn poorly. The way they are designed and managed, the way people’s jobs are defined and most importantly, the way we have all been taught to think and interact create fundamental learning disabilities. These disabilities operate despite the best efforts of bright, committed people. Often the harder they try to solve problems, the worse the results.

Learning disabilities are tragic in children, especially when they go undetected. They are no less tragic in organizations, where they also go largely undetected. The first step in curing them is to begin to identify the seven learning disabilities:
3.4 I am my position

We are trained to be loyal to our jobs – so much so that we confuse them with our own identities. When a large American steel company began closing plants in the early 1980s, it offered to train the displaced steelworkers for new jobs. But the training never took, the workers drifted into unemployment and odd jobs instead. Psychologists came in to find out why, and found the steelworkers suffering from acute identity crises. “How could I do anything else?” asked the workers. “I am a lathe operator.”

When asked what they do for a living, most people describe the tasks they perform every day, not the purpose of the greater enterprise in which they take part. Most see themselves within a system over which they have little or no influence. They do their job, put in their time, and try to cope with the forces outside of their control. Consequently, they tend to see their responsibilities as limited to the boundaries of their position.

Managers from a Detroit auto maker told of tripping down a Japanese import to understand why the Japanese were able to achieve extraordinary precision and reliability at lower cost on a particular assembly process. They found the same standard type of bolt used three times on the engine block. Each time it mounted a different type of component. On the American car, the same assembly required three different bolts, which required three different wrenches and three different inventories of bolts-making the car much slower and more costly to assemble. Why did the Americans use three separate bolts? Because the Design organization in Detroit had three groups of engineers, each responsible for “their component only.” The Japanese had one designer responsible for the entire engine mounting, and probably much more. The irony is that each of the three groups of American engineers considered their work successful because their bolt and assembly worked just fine.

When people in organizations focus only on their position, they have little sense of responsibility for the results produced when all positions interact. Moreover, when results are disappointing, it can be very difficult to know why. All you can do is to assume that “someone screwed up”.

Table 1: Learning disabilities

Source: Senge, 1990.
3.5  The enemy is out there

There was a boy in Little League, who after dropping three fly balls in right field threw down his glove and marched into the dugout. “No one can catch a ball in that darn field”, he said:

“There is in each of us a propensity to find someone or something outside ourselves to blame when thing go wrong. Some organizations elevate this propensity to a commandment: “They will always find an external agent to blame.” Marketing blames engineering. Engineering blames manufacturing: “The reason we keep missing sales targets is that our quality is not competitive.” Manufacturing blames engineering. Engineering blames marketing: “If they’d only quit screwing up our designs and let us design the products we are capable of, we should be an industry leader.”

The “enemy is out there” syndrome is actually a byproduct of “I am my position,” and the no systemic ways of looking at the world that it fosters. When we focus only on our position, we do not see how our own actions extend beyond the boundary of that position. When those actions have consequences that come back to hurt us, we misperceive these new problems as externally caused. Like the person being chased by his own shadow, we cannot seem to shake them.

The “Enemy Is Out There” syndrome is not limited to assigning blame within the organization. During its last years of operation, the once highly successful People Express Airlines slashed prices, boosted marketing, and bought Frontier Airlines—all in a frantic attempt to fight back against the perceived cause of its demise: increasingly aggressive competitors. Yet, none of these moves arrested the company’s mounting losses or corrected its core problem, service quality that had declined so far that low fares where its only remaining pull on customers.

For many American companies, “the enemy” has become Japanese competition, labor unions, government regulators, or customers who “betrayed us” by buying products from someone else. The enemy is out there, however is almost always an incomplete story. “Out there” and “in here” are usually part of a single system. This learning disability makes it almost impossible to detect the leverage which we can use “in here” on problems that straddle the boundary between us and “out there”.

3.6  The Illusion of taking charge

Being proactive is in vogue. Managers frequently proclaim the need for taking charge in facing difficult problems. What is typically meant by this is that we should face up to difficult issues, stop waiting for someone else to do something, and solve problems before they grow into crises. In particular, being proactive is frequently seen as an antidote to being reactive – waiting until a situation gets out of hand before taking a step. But is taking aggressive action against an external enemy really synonymous with being proactive?

Not too long ago, a management team in a leading property and liability insurance company with whom we were working got bitten by creativeness bug. The head of the team, a talented vice president for claims, was about to give a speech proclaiming that the company was not going to get pushed around anymore by lawyers litigating more and more claims settlements. The firm would beef up its own legal staff so that it could take more cases through to trial by verdict, instead of settling them out of court.

Then members of the team began to look more systemically at the probable effects of the idea: the likely fraction of cases that might be won in court, the likely size of classes lost, the monthly direct and overhead costs regardless of whom won or lost, and how long cases would probably stay in litigation. Interestingly, the team’s scenarios pointed to increasing total costs because, given the quality of investigation done initially on most claims, the firm simply could not win enough of its cases to offset the costs of increased litigation. The vice president tore up his speech. All too often, ”creativity” is creativeness in disguise. If we simply become more aggressive fighting the “enemy out there”, we are reacting – regardless of what we call it. True creativeness comes from seeing how we contribute to our own problems. It is a product of our way of thinking, not our emotional state.
3.7 The fixation on events

If there are children arguing at the playground, wise adults say “Now, now children, just get along with each other.” But are we really any different in the way we explain the entanglements we find ourselves caught in? We are conditioned to see life as a series of events, and for every event, we think there is one obvious cause.

Conversations in organization are dominated by concern with events: last month’s sales, the new budget cuts, last quarter’s earnings, who just got promoted or fired, the new product our competitors just announced and so on. The media reinforces and emphasis on short-term events after all, if it is more than two days’ old it is no longer news. Focusing on events leads to event explanations: “The Dow Jones average dropped sixteen points today”, announces the newspaper, “because low fourth-quarter profits were announced yesterday.” Such explanations may be true as far as they go, but they distract us from seeing the longer-term patterns of change that lie behind the events and form understanding the causes of those patterns.

Our fixation on events is actually part of our evolutionary programming. If you wanted to design a cave person for survival, ability to contemplate the cosmos would not be a high-ranking design criterion. What is important is the ability to see the saber-toothed tiger over your left shoulder and react quickly. The irony is that, today, the primary threats to our survival, both of our organizations and of our societies, come not from sudden events but from slow, gradual processes, the arms race, environmental decay, the erosion of a society’s public education system, increasingly obsolete physical capital, and decline in design or product quality (at least relative to competitors’ quality) are all slow, gradual processes.

Generative learning cannot be sustained in an organization if people’s thinking is dominated by short-term events. If we focus on events, the best we can ever do is predict an event before it happens so that we can react optimally. But we cannot learn to create.

3.8 The parable of the boiled frog

Maladaptation to gradually building threats to survival is so pervasive in systems studies of corporate failure that it has given rise to the parable of the “boiled frog.” If you place a frog in a pot of boiling water, it will immediately try to scramble out. But if you place the frog in room temperature water, and do not scare it, he will stay put. Now if the pot sits on a heat source, and if you gradually turn up the temperature, something very interesting happens. As the temperature rises from 21 °C to 27°C, the frog will do nothing. In fact it will show every sign of enjoying itself. As the temperature gradually increases, the frog will become groggier and groggier, until it is unable to climb out of the pot. Thought there is nothing restraining, the frog will sit there and boil. Why? Because the frog’s internal apparatus for sensing threats to survival is geared to sudden changes in his environment, not to slow, gradual changes.

Something similar happened to the American automobile industry. In the 1960s, it dominated North American production. That began to change very gradually. Certainly, Detroit’s Big Three did not see Japan as a threat to their survival in 1962, when the Japanese share of the US market was below 4 percent. Nor in 1967 when it was less than 10 percent. Nor in 1974 when it was under 15 percent. By the time the Big Three began to look critically at its own practices and core assumptions, it was the early 1980s, and the Japanese share of the American market had risen to 21,3 percent. By 1989 the Japanese share was approaching 30 percent, and the American auto industry could account for only about 60 percent of the cars sold in the US. It is still not clear whether this particular frog will have the strength to pull itself out of the hot water.

Learning to see slow, gradual processes requires slowing down our frenetic pace and paying attention to the subtle as well as the dramatic. We will not avoid the fate of the frog until we learn to slow down and see the gradual processes that often pose the greatest threats.

3.9 Delusion of learning from experience

The most powerful learning comes from direct experience. Indeed, we learn eating, crawling, walking and communication through direct trial and error through taking an action and seeing the consequences of that
action, then taking a new and different action. But what happens when we can no longer observe the consequences of our actions? What happens if the primary consequences of our actions are in the distant future or in a distant part of the larger system within which we operate? We each have a “learning horizon,” a breadth of vision in time and space within which we assess our effectiveness. When our actions have consequences beyond our learning horizon, it becomes impossible to learn from direct experience.

Herein lies the core learning dilemma that confronts organizations: we learn best from experience but we never directly experience the consequences of many of our most important decisions. The most critical decisions made in organizations have system wide consequences that stretch over years or decades. Decisions in R&B have first-order consequences in marketing and manufacturing. Investing in new manufacturing facilities and processes influences quality and delivery reliability for decade or more. Promoting the right people into leadership positions shapes strategy and organizational climate for years. These are exactly the types of decisions where there is the least opportunity for trial and error learning.

Cycles are particularly hard to see, and thus learn from, if they last longer than a year or two. As systems-thinking writer Draper Kaufman, Jr. points out, most people have short memories. When a temporary over-supply of workers develops in particular field, he wrote, everyone talks about the big surplus and young people are steered away from the field. Within a few years, this creates a shortage, jobs go begging, and young people have been talking about a surplus for several years and few others are entering it. That way, you finish your training just as the shortage develops.

Traditionally organizations attempt to surmount the difficulty of coping with the breadth of impact from decisions by breaking themselves up into components. They institute functional hierarchies that are easier for people to “get their hand around”. But, functional divisions grow into fiefdoms, and what was once a convenient division of labor mutates into the “stovepipes” that all but cut off contact between functions. The result: analysis of the most important problems in a company, the complex issues that cross functional lines, becomes a perilous or nonexistent exercise.

3.10 The myth of the management team

Standing forward to do battle with these dilemmas and disabilities is “the management team,” the collection of savvy, experienced managers who represent the organization’s different functions and areas of expertise. Together, they are supposed to sort out the complex cross-functional issues that are critical to the organization. What confidence do we have, really that typical management teams can surmount these learning disabilities?

All too often, teams in business tend to spend their time fighting for turf, avoiding anything that will make them look bad personally, and pretending that everyone is behind the team’s collective strategy – maintaining the appearance of a cohesive team. To keep up the image, they seek to squelch disagreement, people with serious reservations avoid stating them publicly, and joint decisions are watered-down compromises reflecting what everyone can live with, or else reflecting one person’s view foisted on the group. If there is disagreement, it is usually expressed in a manner that lays blame, polarizes opinion, and fails to reveal the underlying differences in assumptions and experience in a way that the team as a whole could learn.

Most management teams break down under pressure. The team may function quite well with routine issues. But when they confront complex issues that may be embarrassing or threatening, the tameness seems to go to pot.

Most managers find collective inquiry inherently threatening. School trains us never to admit that we do not know the answer, and most corporatioes reinforce that lesson by rewarding the people who excel in advocating their views, not inquiring into complex issues. Even if we feel uncertain or ignorant, we learn to protect ourselves from the pain of appearing uncertain or ignorant. That very process blocks out any new understandings which might threaten us. The consequence is the “skilled incompetence” – teams full of people who are incredibly proficient at keeping themselves from learning.
The learning disabilities have been with us for a long time and still the same learning disabilities persist, along with their consequences. The five disciplines of the learning organization can according to Senge act as antidotes to these learning disabilities.

3.11 What is learning organization

Senge described the core of a learning organization’s work as based upon five learning disciplines that represented lifelong programs of both personal and organizational learning and practice. According to Senge Learning organization includes (Senge, 1990, p. 5 – 11).

Table 3.1: Learning disciplines

![Learning disciplines diagram]

Source: Senge, 1990.

**System thinking.** Though the tools are new the underlying worldview is extremely intuitive, experiments with young children show that they learn system thinking very quickly.

Personal Mastery - individuals learn to expand their own personal capacity to create results that they most desire. Employees also create an organizational environment that encourages all fellow employees to develop themselves toward the goals and purposes that they desire.

Mastery might suggest gaining dominance over people or things. But mastery can also mean a special level of proficiency. A master craftsman does not dominate pottery or weaving- people with a high level of personal mastery are able to consistently realize the results that matter most deeply to them - in effect, they approach their life as an artist would approach a work of art. They do that by becoming committed to their own lifelong learning.

Personal mastery is the discipline of continually clarifying and deepening our personal vision, of focusing our energies, of developing patience, and of seeing reality objectively. As such, it is an essential cornerstone of the learning organization-the learning organization’s spiritual foundation. An organization’s commitment to and capacity for learning can be no greater than that of its members. The roots of this discipline lie in both Eastern and Western spiritual traditions and in secular traditions as well.

But surprisingly few organizations encourage the growth of their people in this manner. This results in vast untapped resources. People enter business as bright, well-educated, high-energy people, full of energy and desire to make a difference, says Hanover’s O’Brian. By the time they are 30, a few are on the “fast track” and the rest “put in their time” to do what matters to them on the weekend. They lose the commitment, the sense of mission, and the excitement with which they started their careers. We get little of their energy and almost none of their spirit.

And surprisingly few adults work to rigorously develop their own personal mastery. When you ask most adults what they want from their lives, they talk first about what they would like to get rid of: “I would like to my mother in law moved out” they said, or« I would like my back problems to clear up”. The discipline of personal mastery, by contrast, starts with clarifying the things that really matter to us, of living our lives in the service of our highest aspirations.
The manager must be most interested in the connections between personal learning and organizational learning, in the reciprocal commitments between individual and organization, and in the special spirit of an enterprise made up of learners.

Mental Models - this involves each individual reflecting upon, continually clarifying, and improving his or her internal pictures of the world, and seeing how they shape personal actions and decisions. Mental models are deeply ingrained assumptions, generalizations, or even pictures or images that influence how we understand the world and how we take action. Very often, we are not consciously aware of our mental models or the effects they have on our behavior. For example, we may notice that a coworker dresses elegantly, and say to ourselves “She is a country club person”. About someone who dresses shabbily, we may feel, “He does not care about what others think.” Mental models of what can or cannot be done in different management settings are no less deeply entrenched. Many insights into new markets or outdated organizational practices fail to get put into practice because they conflict with powerful, tacit mental models.

Royal Dutch/Shell, one of the first large organizations to understand the advantages of acceleration organizational learning came to this realization when they discovered how pervasive was the influence of hidden mental models, especially those that become widely shared. Shell’s extraordinary success in managing through the dramatic changes and unpredictability of the world oil business in the 1970s and 1980s came in large measure from learning how to surface and challenge manager’s mental models. (in the early 1970s Shell was the weakest of the big seven oil companies, by the late 1980s it was the strongest.) Arie de Geus, Shell retired Coordinator of Group Planning, says that continuous adaptation and growth in a changing business environment depends on institutional learning which is the process whereby management teams change their shared mental models of the company, their markets, and their competitors. For this reason we think of planning as learning and of corporate planning as institutional learning.

The discipline of working with mental models starts with turning the mirror inward, learning to unearth our internal pictures of the world, to bring them to the surface and hold them rigorously to scrutiny. It also includes the ability to carry on meaningful conversations that balance inquiry and advocacy, where people expose their own thinking effectively and make that thinking open to the influence of others.

Shared Vision, involves individuals building a sense of commitment within particular workgroups, developing shared images of common and desirable futures, and the principles and guiding practices to support the journey to such futures.

If any one idea about leadership has inspired organizations for thousands of years, it is the capacity to hold a shared picture of the future we seek to create. One is hard pressed to think of any organization that has sustained some measure of greatness in the absence of goals, values, and missions that become deeply shared throughout the organization. IBM had service, Polaroid had instant photography, Ford had public transportation for the masses and Apple had computing power for the masses. Though radically different in content and kind, all these organizations managed to bind people together around a common identity and sense of destiny.

When there is a genuine vision, people excel and learn, not because they are told to, but because they want to. But many leaders have personal visions than never get transformed into shared visions that galvanize an organization. All too often, a company’s shared vision gas revolved around the charisma of a leader, or around a crisis that galvanizes everyone temporarily. But, given a choice, most people opt for pursuing a lofty goal, not only in times of crisis but at all times. What has been lacking is a discipline for translating individual vision into shared vision-not a “cook-book” but a set of principles and guiding practices.

The practice of shared vision involves the skills of unearthing shared “pictures of the future” that foster genuine commitment and enrollment rather than compliance. In mastering this discipline, leaders learn the counter productiveness of trying to dictate a vision, no matter how heartfelt.
Team Learning - this involves relevant thinking skills that enable groups of people to develop intelligence and an ability that is greater than the sum of individual members’ talents.

How can a team of committed managers with individual IQ above 120 have a collective IQ of 63? The discipline of team learning confronts this paradox. We know that teams can occasionally, in business, there are striking examples where the intelligence of the team exceeds the intelligence of the individuals in the team, and where teams develop extraordinary capacities for coordinated action. When teams are truly learning, not only are they producing extraordinary results but the individual members are growing more rapidly than could have occurred otherwise.

The discipline of team learning starts with “dialogue” the capacity of members of a team to suspend assumptions and enter into a genuine “thinking together”. To the Greeks dialogos meant a free-flowing of meaning through a group, allowing the group to discover insights not attainable individually. Interestingly, the practice of dialogue has been preserved in many “primitive” cultures, such as that of the American Indian, but it has been almost completely lost to modern society. Today the principles and practices of dialogue are being rediscovered and put into a contemporary context. (Dialogue differs from the more common “discussion”, literally a heaving of ideas back and forth in a winner-take-all competition).

The discipline of dialogue also involves learning how to recognize the patterns of interaction in teams that undermine learning. The patterns of defensiveness are often deeply engrained in how a team operates. If unrecognized, they undermine learning. If recognized and surfaced creatively, they can actually accelerate learning.

Team learning is vital because teams, not individuals, are the fundamental learning unit in modern organizations. Unless teams can learn, the organization cannot learn.

System Thinking involves a way of thinking about, and a language for describing and understanding forces and interrelationships that shape the behavior of systems. This discipline helps managers and employees alike to see how to change systems more effectively, and to act more in tune with the larger processes of the natural and economic world.

Senge gives us a very nice example of system thinking: A cloud masses, the sky darkens, leaves twist upward, and we know that it will rain. We also know that after the storm, the runoff will feed into groundwater miles away, and the sky will grow clear by tomorrow. These entire events are distant in time and space, and yet they are all connected with the same pattern. Each has an influence on the rest, an influence that is usually hidden from view. You can only understand the system of rainstorm by contemplating the whole, not any individual part of the pattern.

Business and other human endeavors are also systems. They too are bound by invisible fabrics of interrelated actions, which often take years to fully play out their effects on each other. Since we are part of that lacework ourselves, it’s doubly hard to see the whole pattern of change. Instead we tend to focus on snapshots of isolated parts of the system, and wonder why our deepest problems never seem to get solved. System thinking is a conceptual framework a body of knowledge and tools that has been developed over the past fifty years, to make the full patterns clearer, and to help us see how to change them effectively.

It is vital that the five disciplines develop as an ensemble. This is challenging because it is much harder to integrate new tools than simply apply them separately. But the payoffs are immense. This is why System Thinking is the fifth discipline. It is the discipline that integrates the disciplines, fusing them into a coherent body of theory and practice. It keeps them from being separate gimmicks or the latest organization change fads. Without a systemic orientation there is no motivation to look at how the disciplines interrelate. By enhancing each of the other disciplines, it continually reminds us that the whole can exceed the sum of its parts.
For example, vision without systems thinking ends up painting lovely pictures of the future with no deep understanding of the forces that must be mastered to move from here to there. This is one of the reasons why many firms that have jumped on the “vision bandwagon” in recent years have found that lofty vision alone fails to turn around a firm’s fortunes. Without systems thinking, the seed of vision falls on harsh soil. If nonsystematic thinking predominates, the first condition for nurturing vision is not met: a genuine belief that we can make our vision real in the future. We may say “We can achieve our vision”, but our tacit view of current reality as a set of conditions created by somebody else betrays us.

But systems thinking also need the discipline of building shared vision, mental models, team learning, and personal mastery to realize its potential. Building shared vision fosters a commitment to the long term. Mental models focus on the openness needed to unearth shortcomings in our personal motivation to continually learn how our actions affect our world. Without personal mastery, people are so steeped in the reactive mindset (someone/something else is creating my problems”) that they are deeply threatened by systems perspective.

3.12 Model LC 8-S and standard LC S-10

3.12.1 Standard LC S-10

Deployment model learning organization LC 8-S and standard LC S-10 is also the result of Slovenian know-how developed by the Institute for the learning enterprise.

Institute of LC, as one of the tools for implementation and monitoring of the concept of a learning company, has developed a standard learning company LC S-10. LC standard S-10 is primarily a tool for checking the achieved level of development of the concept of a learning organization.

The purpose of the standard LC S-10 is to encourage companies to introduce the concept of a learning organization in order to increase competitive advantage and business excellence and increasing awareness of the importance of a comprehensive and systematic business management, human resources development, knowledge, continuous learning and innovation.

With the objective of standard management primarily obtain a management tool that allows self-achieved level of development of the concept of a learning company. It is also one of the objectives of the standard that encourages the company to continually monitor its progress on the outside as well as internal assessments and thus, identifying areas where the need to improve anything.

LC standards S-10 are divided into ten areas, which together cover all elements of the concept of a learning organization.

The first standard is about a vision of knowledge and learning, which should be the center of the business vision of each organization.

The content of the second standard, especially are leaders in the organization and their level of creativity, motivation, or “team-player.”

The third standard we encounter the question of organizational culture and to seek the answer to this, the extent to which employees identify with the business policy, a system of values, how the organization responds to the flexibility to change, etc..

Content of the fourth standard are primarily internal operating systems, leading to a systematic and comprehensive implementation of continuous improvement at all levels of the company.

In the fifth standard is in the demand for motivational environment that encourages and rewards the use and transfer of knowledge and the effects of teamwork and project work.
The sixth and seventh standards deal mainly with organizational learning and knowledge acquisition and management of knowledge within the organization.

The last three standards are reflected in particular the need for opportunities for personal and business growth of each employee, investment in knowledge is reflected in business excellence and reputation of the organization. At the end of each process is of course important to know how to measure the difference between input and output and all this even a realistic assessment.

Figure 3.2: Standard LC S-10

Organization standard LC S-10 company obtains and retains when:
- Decides to become a learning company,
- Commit and undertake to fulfill the Charter list of members of the Institute of LC,
- Ability to control of “minimum standards”,
- Achieves at least 60 percent of each elements of standards,
- Carry out a formal procedure for obtaining the standard,
- Continuously and systematically improve the standard of individual elements.

Model LC 8-S in eight steps in the company introduces the concept of learning organization, LC standard S-10 provides continuous monitoring and changing the business in order to achieve competitiveness on the basis of systematic learning, creativity and development of innovation and continuous development of competences of the individual, team and company.

The basic principles that represent the Charter list of members as a basis of the standard LC S-10 defines that in the learning company most knowledge create individuals, and knowledge represents a key source of competitive advantage. Such an entity composed of competent people who are fully involved in achieving corporate goals. The transition to a new state based on management which sets out the vision, goals, common values, changes in behavior, effectiveness of implementation, etc.. In the process of changing and adapting to new situations is a critical step in this process of change in behaviors and activities.
According to research by the Institute’s LC has been shown that in Slovenian companies are present at origins of all the elements of a learning company that are unrelated, disorganized, difficult to distinguish, without a development orientation. Thus, the need to build a simple and systematic model actually proved to be very topical.

### 3.12.2 Model LC 8-S

Model LC 8-S represent a transparent system of related elements of learning company.

The model has eight steps or phases, which are consecutive, which means that the next step begins at the end of the preceding. This does not mean that the steps are not interconnected and intertwined.

**Figure 3.3: Model LC 8-S**

1. **step: Access to the learning company**

The purpose of first step is (Peršak: the group of authors, ed. Možina and Kovac, 2006, p. 173):

1. the attention of senior management with the concept of the LC and
2. adoption of the Charter list of the learning company.

Introduction of the concept of LC includes a presentation of the purpose, objectives, advantages, benefits and content of the concept of a learning company and project execution of model LC 8-S.

Charter list of learning company is a fundamental tenet of the development work of the Institute LC, while the strategic orientation of a learning company. Charter list of learning company is an integral part of business protocol membership in the LC Institute.

With the adoption of the Charter list, the learning company executives long-term business commitment to the core principles of a learning company. These core principles are (Peršak: the group of authors, ed. Možina and Kovac, 2006, p. 173):

- The Learning Company is a systematic and planned organizational culture change, based on knowledge, innovation, entrepreneurship, quality and partnership relations.
- Leaders are the role model to colleagues, their coaches and mentors. They are promoters of the development of individuals and teams in organization and of its soundness. In important decisions they reach a high approval of all members.
- The learning company is developing an integrated systems approach to managing changes.
- Key of knowledge resulting from the strategic planes of the company. Learning is planned. Learning processes taking place linked to all employees, and effective methods.
- The management of knowledge is of strategic importance. Collection, selection, storage, distribution,
development and transfer our knowledge in products and services are fundamental business processes which are carefully planned and continuous improvement.

- The positive organizational climate, comprehensive motivational environment and open communication environment of space are key factors for the release of creativity and innovation of employees.
- The learning company offers each employee a business opportunity. Everyone is responsible for their professional and personal growth and personal mastery, but is also liable for the transfer of knowledge and skills to colleagues.
- The learning company continuously monitors, measures and evaluates the effectiveness of investments in knowledge.

Special attention the learning company devotes to the contribution of the learning organization to excellence results and business attraction. Competitiveness is being developed based on the knowledge and skills of employees.

2. step: Analysis of level developments of LC and LC framework programme

Based on the analysis of the situation (in terms of LC) to establish the framework program (set of core projects) introduction and development of a learning company, endorsed by the leadership.

The purpose of this step is primarily a wider acquaintance with the model and performance, determine the current situation and prepare a program of introducing and developing the LC.

First, of course, required by the strategic analysis of the company to prepare a snapshot of the existing situation, in that it is necessary to separately observe the elements of LC and also evaluated. The purpose of such analysis is to prepare a good induction program and the development of the LC.

At this stage it is advisable to estimate the minimum standards of learning company.

- The minimum score standards contain answers to questions (Peršak et al., 2006, p. 175):
  - Whether the company has a strategic plan, which is known to all employees?
  - Whether a company has a team to develop a learning company?
  - Whether the company has recorded the value system?
  - Whether the firm has enumerated the basic explicit skills of employees?
  - Whether the company implemented a basic knowledge transfers?
  - Whether the company carried out a basic assessment of employees (satisfaction, performance,…)?
  - Whether the company has plans for basic education and training?
  - Whether the company has a plan of growth of the qualification structure?
  - Whether in the company there is a basic information system?
  - Whether the company used the colleges and other forms of work meetings?
  - Whether the company organizes conferences for strategic monitoring of the strategy?
  - Whether the company has developed a basic model of innovation?
  - Whether in the company is present the way of teamwork and development?
  - With all the acquired data can be prepared a framework program of introducing LC.

3. step: Installation of supportive environments and organizing of project LC 8-S

Board of Directors appointed the relevant project teams to start their own training programs and making their work. Conducted the first comprehensive information about the project and generate support among employees.

In the third step is necessary to form working bodies and the training process itself and the deployment of staff and adequate information.
Working bodies are important for the further process of introducing the model LC 8-S, since they are responsible for the creation of the environment and of derivation of the model introduction.

Project Board - to be composed of members of management as it represents the main body. As I mentioned, such a project should enjoy the broadest support of the leadership, it must be the supreme body of the project consists of members of top management. Project Board to approve all the decisions, controls, confirming the report and provide adequate resources.

The project team - LC team - the members of this team are the main contractors of the project, promoters of useful changes. Those who are advanced, innovative, seeking new solutions, new knowledge, new learning. There are those who remain informed about their work. They are primarily responsible for technical management and coordination of the project and deployment model LC 8-S.

Team to communicate - the task of this team is to develop and establish a system of communication. They should understand the concept and are responsible for the fact that removing all barriers to the introduction of the concept especially for the free flow of information about the project at all levels.

Development Coalition - a coalition of internal strategic partners, consisting of the company’s management, unions, employees, shareholders. Worry about the positive atmosphere for all the beneficial changes.

College learning company - is systematically organized form of education for the transfer of knowledge within the company.

External experts - are desirable but not essential.

The concept of a learning company, or. LC 8-S model is being introduced throughout the organization. No segment should be exempt from the system. It is very important, how about the project or it’s deployment are all employees informed. It is important to ensuring the correct information for the project from the outset of the project.

4. step: Creating strategic learning company infrastructure

The management of the company shall establish and adopt the so-called strategic plan. This means to create or restore vision, mission, goals, strategies, etc. as a strategic platform for the new period of development. Conducts a strategic analysis of the organizational culture (myths, habits, thought patterns, values) set the goals and ways of further development of organizational culture.

In this step is necessary to set primarily strategic infrastructure of LC, to prepare a communication plan, to put in place appropriate management methods, to measure employee satisfaction and to establish a comprehensive system to motivate employees.

5. step: Setting up a communication system

In this step the company designs, establish a comprehensive network of communications at all levels of the organization. In this step is particular important to release obstacles to the smooth communication.

To establish such a system is needed (Peršak, 2006, p.182):

- establish communication objectives,
- identify information and knowledge,
- identify the target content,
- create a communication channel,
- develop a communication plan,
- to train management and employees.
The key is training the main actors of communication, such as managers and project managers. Their task is to manage the transfer of information, innovate new ways of communication, public speaking...

6. step: Setting up a network of system projects of a learning company

In this step has to be establishing a network system projects of a learning company. At this has the central role the project management skills. Very important is that the projects we run as a network, connected together as an integrated system.

One of the most important elements is the element of system thinking. Important in the organization is therefore a systemic approach to understanding the concept and action. All systems and subsystems in the organization must act in accordance with each other and separately.

7. step: Assess the situation and consolidation changes

The seventh step is to re-assess the situation to be attained by this step. We call it the checkpoint. Determine the effectiveness of the enforcement changes, to strengthen the activities in those areas where we are dissatisfied with the results. Positive developments and achievements are consolidating.

In all processes in the organization should be constantly assessing the situation, identify the errors that hinder us in achieving our goals. Errors must be promptly rectified to achieve the objectives. Any positive change is to be consolidated and brought to life, which means that they should be welcomed from all staff. To assist in this standardization is mainly systemic solution, such solutions become a kind of internal rules to solve problems.

8. step: Further long-term development planning of a learning company

With eight step we rounded up “cultural facility“ of learning company. The fundamental analysis is to touch all the key elements of the LC and begin planning the transition to a higher stage of development.

The last step is to analyze all the existing activities and develop a plan for further development of a learning company. This represents a further work of the organization long term. All processes must be continuously monitored and where necessary modify and upgrade.

The company obtained Certificate Learning Company, when an external assessment to found that company satisfy the standards of LC S-10.

Learning is a condition of progress. This is the process by which the organization is adapting to the environment. Organizations that do not learn, can not survive. In today’s volatile and rapidly changing environment, the need for the systematic and predetermined form of learning in necessary which allows smooth adaptation to the environment.

3.12.3 Model Future “O”

Model FOTURE-O was developed by Slovenian expert on the principle of professor Dimovski. Model leads through seven element to developed learning organization. The model requires the full enjoyment of the learning organization concept and emphasizes the integrity and integration of all processes and all employees on the move from horizontal to the vertical organizational structure, based on organizational learning. This is a new understanding of change management. Learning organization is changing along the lines of natural systems, because any change in it affects the rest of its elements, so we are talking about molecular approach (Dimovski et al., 2005, p. 123-125).

Slovenian model as a molecular way of fostering a learning organization is a new model of treatment for the organization as a whole system. Learning organization operates in a rapidly changing environment. FUTURE-O model can be studied on a reciprocal basis, therefore, molecular, which means that seven of its
elements need not materialize gradually, in chronological order, but they can be independently changed and upgraded, thus influencing the overall structure (Dimovski et al., 2005; p. 125).

Figure 3.4: Model FUTURE – O

![Diagram of 5 Disciplines: System Thinking, Shared Vision, Persona Mastery, Team Learning, Mental Models]

Source: Dimovski et al., 2005, p. 125

In organization, wherein is placing particular model, this model requires a high degree of decentralization. The leaders are expected to split power between employees. This will motivate each individual to provide for his own knowledge and to develop and transfer knowledge within the organization. Innovation, initiative and new ideas come up from the bottom.

Model-FUTURE OF ®, consists of seven mutually-acting elements, which complement each other interactively.

Model, due to its molecular approach, does not require sequential or fostering of individual elements. Equal functioning of all elements encouraging the activities of all members of the organization and in all processes. All are motivated for it to contribute its share towards a learning organization. Direction of learning is defined in the strategic plans of the organization, which is practiced by all employees. Of course, the most important role is of leaders in the organization. Leaders are those who ensure that the true values of the organization are known and accepted by all employees and that the model becomes part of each employee and each employee of the model.

Model-FUTURE OF ®, consists of seven elements, and is a comprehensive strategic plan for the management and all employees who wish to develop a learning organization.

1st element: Laying the foundations to start the reorganization process in the learning organization

In every organization must first establish the present situation (status quo), the organization must respond to the litmus test. Therefore identify the processes within the organization, which tell us whether the organization is a learning organization or not. However, the organization can do much to minimize barriers to effective learning.

One of the most important things is therefore the creation of an environment which will be conducive and will promote it. Importance of the initial analysis of the strategic management of the organization is divided into four basic elements (Dimovski et al., 2005, p.141):

- Observation of the environment, which consists of analysis of internal and external environment,
- Design strategy, which is making long-term direction of an organization and identifying the internal strengths and weaknesses,
- Implementation of the strategy,
- Changes in control where management measured and compared activities with the achieved desired.
To achieve maximum results, all processes start at the top management, who must ensure that in all processes all employees are involved. Therefore, relevant answers to questions is which parts of the existing organization is even possible to change and how management can implement their ideas at all levels of the organization.

There are several types of organizational change (Dimovski et al., 2005, p.143-144):
- Technological change - are connected with the production processes, which should lead to greater efficiency;
- Changes in the products often are the implications of the new strategy;
- Structural changes represent a hierarchy of authority and managerial systems;
- Change in culture is based primarily on a system of values and norms within the organization, which represents a paradigm shift in the organization.

For each phase changes should be recognize the fact that a certain number of people are afraid of change. Therefore, it is always necessary to carefully prepare the environment for all the organizational changes.

If possible, it is good to minimize any interference in the existing organization, so it's good in the first phase to create a team of strategic changes, the team for the realization of a learning organization.

The basic task of corporate strategic team is monitoring and measuring improvements in the development of a learning organization, and an estimate of the desired state, as it will be possible to build a proper supportive environment for the learning organization.

2nd element: Building supportive environments

Creation of supportive environments is the establishment of links between all members of the organization through team organizational structure; it is a system that ensures the involvement of all employees in creating a learning organization. This item is probably one of the most important steps because of its complexity and interdisciplinary.

The central of learning organizations are teams, which focus themselves (self managing). Heads, so to speak no more exist, because the responsibility for training, safety and everything else take over team members. This is also the sense of a learning organization, as it promotes cooperation within the team and outside team with other organizations.

As researchers, those that introduce the concept of learning organization, must to make sure all employees that the concept works, but above all it is useful to the organization. In larger organizations the benefits of transformation most effectively persuade pilots projects. Care is needed in particular to the diversity of teams, which should be composed of employees from various levels, different profiles and functions.

The treasury of knowledge is one of the most supportive environments in the learning organization. Equally important in organizing is the structure of knowledge management. Through the tree of knowledge management and knowledge through the trustees records are kept of all knowledge in the organization. It is always updated and amended.

It is also important information and telecommunications technology, which the organization uses. It is necessary to apply this, it is able to cope with internal and external flows into the common treasury of knowledge and information.

3rd element: Creation of a comprehensive strategy and the identification of strategic objectives

Strategic planning is the most important function in the process of management in the learning organization. Represents the basis for all other processes.
The organization should develop its strategic goals, vision, mission and plans. All the more important is that the fundamental goals of the organization are associated with the individual goals of employees. Above all, everyone in the targets identified.

The aim of the desired future outcome, which is trying to achieve the organization plan a plan to achieve the goal. The word planning usually involves determining the objectives of the organization and definition of resources to achieve them.

In the planning process is first and foremost important definition of the organization and definition of strategic objectives. The mission defines the basic purpose of each organization and the basis for the formulation of strategic objectives.

Strategic planning is changing. Traditionally been the domain of planning and strategies at top management. In learning organization the planning process, is not placed only at the top managers, but all levels within the organization. Once an organization has a clear mission and strategic goals, it can start by planning at all levels, from highest to lowest.

Different organizational levels are also responsible for planning (short and long term). It is important what kind of approach to the planning has the organization.

Traditional approaches - Planning is exclusively in the hands of senior managers, consultants or planning departments in the organization. Shortcomings of such planning are primarily, to disregard the facts, because those who are planning are often not in touch with employees, customers, suppliers, in short, do not know enough facts of such a planning. They do not know enough facts.

Modern approaches - Also there is need for radical decentralization. Planning group formed a lower management and even employees at all levels, project managers or expert groups.

For a learning organization is extremely important strategy. In the learning organization there are three levels of strategy, namely (Dimovski, 2005, p.220):

- Corporate or a comprehensive strategy - outlines the scopes and purpose of the organization;
- Business strategy and competitive strategy, mainly which is the way to a better definition of competition;
- Functional strategy - the lowest in organizational hierarchy and is coupled with organizational function (field) in the organization.

In the learning organization is a necessary strategy to adapt the organizational structure. Traditional organizational structures that emphasize the size and clarity of roles, formalization, specialization and control, usually is not the best for this type of organization, because for the learning organization is particularly important learning, speed, flexibility, innovation, which requires constant networking within and outside organization

Organization of modern society must be designed to operate in practice. The organization is particularly necessary to develop the skills of group thinking, involve employees in all operations and processes and to develop the ability to react to rapid and continuous changes in the environment.

4th element: The process of leadership and shaping climate for expansion organizational knowledge

The conduct of the learning organization is the most important process. The heads are the ones who can make a successful leap into a learning organization. This should encourage independent thinking, but keep working towards a common vision and create a appropriate climate in organization.
The leaders in the learning organization have three main tasks, namely (Dimovski, 2005, p. 236):

- Creating a common vision. The vision of the organization is understood as a description of the organization in the future. With a vision to inform employees what they can expect in the future.
- Establish an organizational culture. Head encourage horizontal relationships, the creation of appropriate working groups by project, frequent meetings among employees, communicating inside and outside organizations. Thus the behavior of the learning organization must become a way of life of the organization.
- "Helpful" leadership. Leaders act on two fronts: to meet the goals and needs of their subordinates and to realize the mission of the organization.

Head of the learning organization must avoid the centralization of authority. Problems share with subordinates, and so together seek solutions to problems and alternative solutions. In this way they encourages employees at all levels to work together more easily and more quickly achieve the objectives, participate in decision-making and planning.

An important element of leadership is communication. Managers are responsible for the establishment of formal and informal channels of communication networks.

In the learning organization is very important also the behavior of people at work. Planning of human resources concerns the prediction of new employees. Leaders must know how to select appropriate staff, shall establish adequate communication. The choice must be such personnel, who will most benefit the organization. The heads still have many ways that these tasks can be performed better.

The lead management is also responsible for appropriate systems of material and in material rewards and motivation in the organization.

Continuous learning and promote it into a learning organization is one of the main tasks of management. In the learning organization is relying primarily Garvin’s practice for learning and education, focused teaching and learning, create opportunities for learning, designing learning climate, moderate discussions, and organize the processes of individual learning.

**5th element: Design and implementation of a learning organization**

Model of a learning organization must put into practice, if not we did not do anything.

Above all, must be clear a comprehensive strategy for business organizations. Top management must be able to promote the effective participation of employees through systems empowering the employees, participatory governance, open communication within and outside the organization, information flow and knowledge, creating an appropriate organizational culture based on openness, trust and cooperation, creating a shared vision, personal mastery, team teaching staff ...

Leaders must learn to "assess (evaluate) a particular situation, to plan (Plan), to do (Do), to check (Check), to act (Act) (Dimovski et al., 2005, p. 278).

A fundamental feature of the learning organization is a strong organizational culture that encourages changes and adaptation. In many successful organizations is the main danger organizational culture. It is most difficult to change course in the organization just that. However, it can not be avoided. Learning organizations must have robust and flexible culture that includes the following values (Dimovski et al., 2005, p. 303):

- The whole is more important than the parts, the boundaries between parts are as far as possible eliminated
- Gender is a core value.
- Culture encourages risk taking, change and improvement.
6th element: Monitoring of the reorganization process and evaluation of the achievement

If we want to be successfully at introducing the concept of learning organization, we must establish a proper system of inspection and evaluation of achievements.

Just as in the learning organization is a general trend of decentralization, it is also in the control and evaluation. In contrast to bureaucratic control, which includes monitoring and influencing the behavior of employees through the application of rules, written documentation, reward systems and other formal mechanisms, decentralized control takes into account cultural values, traditions, shared beliefs and trust. Management trusts its employees without a specific system of rules. Unfortunately, in practice such a system is very difficult to establish, managers still prefer to resort to a system of rules, leaders, however, have a quite a few methods of control (Dimovski, 2005, str.320 - 321):

Behavioral control is the most effective type of control. The use of values and norms, such as organizational culture, shared values, commitment, traditions and beliefs with a view to working out some kind of self-control. Behavioral control often use small and informal organizations.

Balanced Scorecard is a system of different indicators such as financial performance, market considerations, internal business process and the ability of the organization for growth and learning, which ultimately display the overall status of the organization.

International quality standards - best known are ISO 9000, which set uniform guidelines to companies around the world and decide what to do various organizations to their products or services adapted to the requirements of high quality.

Open book management means that all the information (financial results) is available to all employees in the organization. In this way it brings all the employees to feel as the owners, but not more than hired labor.

According to German researchers, the North’s and Pappa, the processes of fostering a learning organization is divided in three stages, namely (Dimovski et al, 2005, p.324 - 325):

- First to implement appropriate management information systems and applications.
- Second knowledge managers take responsibility for the expansion of the concept of learning organization and lead the formation of networks among employees.

In the third stage begins decisive top-down approach. Managers at all levels promote knowledge and expand it.

For the successful introduction of the concept, a system of monitoring performance learning organizations in necessary. Managers have some modern approaches, such as the concept of costs by activities of the business process, budgeting based on activities, management is based on activity analysis, the concept of cost of living impact of business objectives, target cost concept, theory of constraints, benchmarking ...

7th element: (For) anchoring changes in the company and expand the concept of learning organizational culture

The organization has to be aware that the process of knowledge transfer within an organization is not an isolated process, but that the process involved in the overall organization, management and operation of every individual. It is therefore necessary to ensure that all obstacles are removed, which would preclude the successful operation of the system.

The most common problems in the implementation of implicit knowledge in the core processes of organizations are (Dimovski, 2005, p.350):

- Transfer of knowledge managers are not doing enough
• Individualism of employees, jealousy, lack of team orientation.
• Weak socialization in the company.
• Distrust among employees.
• The destructive conflict solution.
• Low motivation to transfer knowledge.
• Poorly developed systems for storing knowledge created.
• Poor support information system.
• Inadequate organizational structure.
• Inadequate architecture.

In the organization is required to put the appropriate foundations for the functioning of the concept of learning organizations such as the cultivation of an appropriate organizational culture, most flat organizational structure, employee motivation for learning and transmitting knowledge, socialization, training, mentoring.

When the concept is introduced is necessary to maintain the strategy cooperation. Learning should be a motivation for collaboration, knowledge transfer to the mode of operation employed. Management should encourage networking between employees and their knowledge, both within and outside the organization. Continuous learning must become the culture of the organization, which means that all employees support the learning and knowledge transfer, management gives clear instructions, messages and expectations, without intimidation and control, management is willing to listen, the organization must be both technically and market-oriented, employees can learn from their mistakes.

The design of a learning organization requires a collaborative organizational culture that enables employees’ cooperation and teamwork. All employees have a sense of interconnectedness. Collaborative culture and a sense of closeness are important because they are an important element of teaching staff and learning from each other (Kovac, 1999, p. 125).

3.13 Conclusion

The concept of the learning organization arises out of ideas long held by leaders in organizational development and systems dynamics. One of the specific contributions of organizational development is its focus on the humanistic side of organizations. The disciplines described, differ from more familiar management disciplines in that they are ‘personal’ disciplines. Each has to do with how we think, what we truly want, and how we interact and learn with one another.” We see learning organizations as part of the evolving field of organizational development.

There are probably no true learning organizations at this point. However, some of today’s most successful organizations are embracing these ideas to meet the demands of a global economy where the value of the individual is increasingly recognized as the most important resource.

Review Questions

• What is the core principal of a learning organization?
• What are learning disabilities and why are they tragic for company?
• What is the parallel between boiled frog and a company?
• What are the disciplines of learning organization?
• Which discipline would you say is the most important (if there is any) and why?
• How these disciplines can contribute to company development?
• A learning organization is a relatively new concept, so it is understandable that the definition of this concept is different. What do you understand by a learning organization and how you see its significance?
• In implementing the learning organization have so far developed three basic approaches. What are these basic approaches and what are their characteristics?
• Learning organization is based on certain principles (pillars). What are these pillars or principles, and what are their characteristics?
• Learning difficulties in the organization is accompanied by numerous factors. What an inhibiting factor in learning and distinguish what are their characteristics?
• In introducing the learning organization is important to note certain elements. Indicate which of these elements and explain their meaning!
• Learning organization has its own characteristics. What are the characteristics of a learning organization?
• In a learning organization differentiate individual learning, learning leaders, learning among colleagues, team learning and learning at the organization level. What is the role and purpose of learning to the organizational level?
• For something to identify a learning organization?
• To create a learning organization is required to conditions. What?
• Organizational learning requires the presence of three processes of knowledge. What are these processes and what are their characteristics?
• The organizational learning affects a series of factors. What are these factors and what are their characteristics?
• Describe the model of a learning company FUTURE-O!
• How do you imagine the introduction of the model USP 8K in-law of the organization?

Resources:

4 ORGANIZATIONAL DEVELOPMENT

4.1 Introduction

Organizational development (OD) is a branch of general organizational theory. It has been developed in the middle of 80s. The main objective is how to manage changes within the organization.

In recent years serious questioning has emerged about the relevance of organizational development managing change in modern organizations. OD became not just a field of research but a collection of interventions intended to stimulate planned change in modern organizations as well. So this chapter describes issues associated with change in organizations, introducing OD as a process of change management and revealing organizational development interventions that managers can use in order to initiate change.

4.2 A definition of organizational development

The nature and needs of organizations are changing with very fast speed, so the organizational development (OD) has been changing as well in order to meet the changing needs of organizations. According to this, there are several definitions of organizational development. For many years, the standard definition for OD, according to Richard Beckhard, was defined as an effort planned, organization wide and managed from the top to increase organization effectiveness and health, through planned interventions in the organization’s processes using behavioral science knowledge. Also Warner Burke defined OD as a planned process of change in an organization’s culture through the utilization of behavioral science technologies, research and theory (Wankel C. (2008. p. 435). OD features prominently in organizational change management theory and practice. Early forms of OD emanated from the USA approximately 50 years ago and since then OD has been widely applied in organizational settings across the entire world.

Today organizations operate in a rapidly changing environment, so new definitions of OD are considered:

- OD is a planned approach to interpersonal, group, inter groups, and organizational change that is comprehensive, long-term and under the guidance of a change agent.
- OD is a process through which planned and systematic attention is given to developing greater organizational competence, improving organizational effectiveness, and enhancing organizational functioning in general (Wankel C. 2008, p. 289).
- OD is a pervasive aspect of modern organizational life, where all organizational functioning involves a number of organizational components working together and organizational members who collaborate with change agents usually execute the change program, where development is emphasized through human growth and improvement.
- OD collaborating with organizational leaders and their groups create systemic change on behalf of root-cause problem-solving toward improving productivity and employee satisfaction through strengthening the human processes through which they get their work done (http://www.chumans.com/human-systems-resources/defining-organization-development.html).
- Moreover, OD is more general process of planning, implementing and stabilizing the results of any type of organizational change, so it can be characterized by five important features:
  - OD emphasizes planned change. OD has a need for a systemic, planned approach managing change in organizations and it distinguishes this development from any other spontaneous and less methodical changes in organizations.
  - OD has a pronounced social-psychological orientation. OD interventions can stimulate change at many different levels – interpersonal, group, inter group or organizational. The field of OD is purely psychological (focused on individuals), purely sociological (focused on organizations) or rather incorporates a mixture of both orientations.
  - OD focuses primary attention on comprehensive change. Every OD intervention focuses not just on a specific organizational target, but affects the total system as well.
  - OD is characterized by a long-range time orientation. Change is an ongoing process that can take sometimes months or even years in order to produce the desired results and OD process is not intended to yield stopgap solutions.
OD is guided by a change agent. OD interventions are designed, implemented and assessed with the help of a change agent, who may be a specialist in the organization or a consultant brought in from outside, and who serves as a catalyst for change and a source of information about the OD process.

So OD is planned change within organizations and OD sequence is a continual process, developing organizations and individuals through the use of carefully planned change-management interventions.

OD is a body of knowledge and practice that enhances organizational performance and individual development, viewing the organization as a complex system or systems, which has its own attributes and degrees of alignment: http://managementhelp.org/organizationdevelopment/od-defined.htm.

OD is the development of the organization (Blake and Mouton: in Gabrijelčič, 1995, p. 23)

OD is an answer upon the changes, it is a common educational strategy with the common objectives to change trusts, attitudes, values and structures into organization on that way to better fit to technologies, markets, challenges and the phases of growing changes (Gabrijelčič, 1995, p. 23).

OD is a humanization of work, improvement of mutual relationships, job enrichment, job enlargement ...

One of the simplest definitions is that OD is planning of changes within the organization.

OD is a part of entire organization development. Organizational development is a broader meaning, which includes also technological development, market development and other kind of organizational development.

OD intervention – purposeful action by the agent to create and facilitate change in a particular organizational setting or system. http://tue.academia.edu/GeorgesRomme/Papers/543558/ Organizational_development_interventions_An_artifaction_perspective

4.3 A history of organizational development

In the late 1960s organizational development was implemented in organizations via consultants, but was relatively unknown as a theory of practice and had no common definition among its practitioners. Kurt Lewin played a key role in the evolution of OD and is widely recognized as the founding father of organizational development, although he died before the concept became current in the mid-1950s. From Lewin came the ideas of group dynamics and action research which underpin the basic OD process.

Throughout the 1970s and 1980s organizational development became a more established field with courses and programs being offered in business, education, and administration curricula. And in the 1990s and 2000s organizational development continued to grow and its influences could be seen in theories and strategies such as total quality management, team building, job enrichment and reengineering. But the foundations of OD came from applied behavioral sciences and have three major stems: laboratory training, survey research and feedback and the action research.

4.4 Laboratory training

Laboratory Training known as sensitivity training or T-groups began to develop in 1946 from various experiments in the use of discussion groups to achieve changes in behavior by Kurt Lewin. This training involves participants sharing information about themselves and each other with a view to learning more about themselves and each other with a view to learning more about group members and the dynamics of the group. By proponents of this training, the feedback that individuals received during these sessions could be used to increase levels of self-awareness and lead to psychological growth, development.

What is more, laboratory training involves unstructured small groups activities in which participants learn from their own interactions in order to facilitate behavioral changes. As a result on this training, it was found out that feedback of information about group interaction is a rich learning experience and the process of group building has potential for learning that could be transferred to organizational situations. Based on this intervention and many of the insights that emerged during the period, OD emerged as a new approach to organizational improvement (Bowditch J. L., Buono A. F. (2005). Moreover, it will lead to greater group effectiveness and the development of the organization.
4.5 Survey research and feedback

The second major thrust in the history of OD is the use of attitude surveys and data feedback sessions. Based on this experience, it was found out that intensive group discussions of the information generated by the employee survey could be an effective tool for introducing positive change in organizations.

Rensis Likert developed the use of fixed-response attitude questionnaires widely used by OD practitioners as a means of obtaining what they see as objective data from organizational members, attitudes about a wide range of change management related issues. Likert’s method began evolving when he observed that many organizations seldom used the results from attitude surveys to guide their change efforts (Wendell L. French etc al. (1984). Later the survey feedback has also been suggested as a way for improving overall organizational effectiveness, forming data-based profiles of organizational climate and for enlightening management labor relations.

4.6 The action research

If one idea can be said to summarize OD’s underlying philosophy, it would be action research as it was conceptualized by Kurt Lewin and later by other behavioral scientists. Organizational development is a structured, multiple-step process. The action research model is a detailed variation of this process that places particular emphasis on post-change evaluation. In the initial stage of action research is problem identification when someone in an organization perceives problems that might be solved with the assistance of an OD change agent. Then follows consultation when the manager and change agent clarify the perceived problems and consider ways of dealing with them, assessing the degree of fit between the organization’s needs. The second stage of action research is the action or transformation phase. This stage includes actions relating to learning processes and to planning and executing behavioral changes in the client organization. The agent observes, interviews and questions employees, analyzing performance records. The change agent concludes this stage by examining the data and performing a provisional analysis and diagnosis of the situation. And the third stage of action research is the output or results phase. This stage includes actual changes in behavior. Data are again gathered from the client system so that progress can be determined and necessary adjustments in learning activities can be made. Moreover, the action stage may involve such activities as additional data gathering, further analysis of the problem and supplementary action planning (see Figure 1).

Figure 4.1: The Model of Action Research Process

In this research model, change is seen as an ongoing activity. Information gathered through research is used to inform the action that is taken in the change setting. The results of the action are then evaluated and this evaluation process is used to plan further actions. Moreover, action research involves the client system in a diagnostic, active-learning, problem-finding, and problem-solving process. During this process, the change
agent serves as an expert on research methods as well as applied to the process of development and evaluation.

The nature of organizational development
In order to understand the nature of traditional OD, it is essential to recognize that OD was built upon philosophy, values and assumptions of humanistic psychology. The humanistic position emphasizes the person’s search for self-knowledge, self-development and the answers to the meaning of life. Organizations are active participants in society. Organizations are born, grow, and decline. Sometimes they reawaken, and sometimes they disappear.

OD focuses on a method of inquiry, the relationship between the change agent and organizational members and humanistic values that reflect a concern for the health and well-being of the individual in a large social system. Moreover, OD is increasingly characterized by the integration of structure, process variables and interventions (see Figure 2).

*Figure 4.2: Relationship between OD Approaches*

![Diagram showing the relationship between OD Approaches](image)

Also there are some characteristics that differentiate OD from other organizational changes:
- A dual focus on culture and process as well of all sides of the organization.
- An emphasis on collaboration between organizational members and the change agent.
- An emphasis on participation and involvement in problem solving and decision making at all organizational levels.
- OD practitioners are as facilitators, collaborators and co-learners.
- A focus on the total system, with a developmental view of individuals and the organization.

Therefore, OD interventions based on humanistic philosophy aim to provide employees with an environment in which employee can find meaning in their work. Three principal values can be used to describe the variety of values found in OD (Wankel C. (2008):
- Participation (all people who are affected by change should have the opportunity to be involved in the change process);
- Shared power (individuals who are affected by change should not just participate in the process but have a share in the decision making as well);
- Truth (all people involved in the change process should tell each other the truth about their own feelings).
These perspectives show different facets of the OD process that give to organizational development its unique stamp and serve as the foundation that has played a significant role in shaping the practice of organizational development. And each foundation is the result of diverse streams from earlier theories and earlier practices.

4.7.1 Models and theories of organizational development

Models and theories of planned change facilitate the development of OD. These models and theories depict not just the important features of some phenomenon, but describe those features as variables and specify the relationships among them. Several recent theories show the increasing our understanding of what happens and how it happens in planned change. In this section it is provided a framework for thinking about planned change by exploring several recent models from the literature. In addition, each model of organizational change represents a different ideology with its own assumptions about the nature of human beings and social organizations.

4.7.2 The Burke-Litwin model of organizational change

In 1992 W.Burke and G.Litwin published a high level change process theory, in which certain elements cause changes of other elements. The Burke-Litwin change model revolves defining and establishing a cause-and-effect relationship between 12 organizational dimensions that are key to organizational change. This model strives to bring a change in the performance of a team or an organization by establishing links between performance and the internal and external factors which affect performance. This change model is based on assessing the organizational as well as environmental factors which can be tweaked so as to ensure a successful change.

Moreover, Burke and Litwin distinguish between transformational factors (yellow boxes) and transactional factors (green boxes). Transformational change happens in response to the external environment, which directly affects the mission, strategy, leadership and culture of the organization. In turn, the transactional factors are affected by structure, systems, management practices and work climate. These transformational and transactional factors together affect motivation, which in turn affect performance. There is a feedback also, because the organizational performance can directly affect the external environment (see Figure 3).

Figure 4.3: The Burke-Litwin Model of Organizational Change
So OD interventions which are directed towards structure, management practices and systems (policies, procedures) result in the first order change (transactional) and towards mission and strategy, leadership and organizational culture resulting in the second order change (transformational). The Burke-Litwin model is considered as a significant advance in thinking about planned change.

### 4.7.3 The Porras and Robertson's model of organizational change

In 1992 J. Porras and P. Robertson developed a model of how organizational development works. The basic premise is that OD interventions alter features of the work setting causing changes in individual’s behaviors, which in turn lead to individual and organizational improvements. The work setting plays a central role in this model and consists of four factors:

- Organizing arrangements (goals, strategies, structure, policies, procedures);
- Social factors (culture, management style, informal networks);
- Physical settings (space configuration, physical ambiance);
- Technology (machinery, tools, IT, job design).

This model shows how OD interventions can be linked to factors in the work setting. OD interventions that focus on goals, strategies, and rewards will affect organizing arrangements. Interventions that focus on culture, management style, and interaction processes will affect social factors. Interventions that focus on job design and work flow design will affect technology (see Figure 4).

*Figure 4.4: The Porras and Robertson Model of Organizational Change*

According to Porras and Robertson, OD works when work setting factors influence organizational members cognitions, which influence job behaviors, determine organizational performance and individual development as well. This model is extremely useful for OD practitioners and organizational leaders.

### 4.8 Interventions of organizational development

In order effectively to adapt and thrive in today’s business world, organizations need to implement effective OD interventions aimed at improving performance at organizational, group and individual levels. OD interventions are the set of structured activities where selected organizational units gets engaged with task or set of tasks that are either directly or indirectly related to the development of the organization.
OD interventions involve respect for people, a climate of trust and support, shared power, open confrontation of issues, and the active participation of stakeholders. OD professionals must have a solid understanding of the different OD interventions to choose the most appropriate that would give the expected results and a solid analysis of the organization and its environment.

Although there are many different classifications of OD interventions, here it is classified four main OD interventions grouped as (Malhotra J. (2009):

- **Human process interventions.** These interventions are focused on organizational members and the processes through which they accomplish organizational goals (team building).
- **Techno-structural interventions.** These interventions examine the technology and structure of organizations and emphasize both productivity and human fulfillment (quality circles).
- **Human resource management interventions.** These interventions emphasize personal practices used to integrate organizational members (career planning).
- **Strategic interventions.** These interventions link internal organizational functioning to the environment and transform the organization (culture change).

Also OD intervention that became very popular is total quality management (TQM). TQM interventions are an approach to doing business that attempts to maximize the competitiveness of an organization through the continual improvement of the quality of its products, services, people, processes and environment (Harvey S., Millett B. (1999). Therefore, the TQM approach views organizations as interactive communication networks. TQM aims to achieve continuous improvement of products, services and processes through the involvement of people at the workplace.

Also many different OD interventions can be selected on the basis of data gathered through action research (see Figure 5).

Figure 4.5: Organizational Development Interventions

<table>
<thead>
<tr>
<th>INTERPERSONAL INTERVENTIONS</th>
<th>GROUP INTERVENTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role negotiation technique</td>
<td>Process consultation</td>
</tr>
<tr>
<td>Sensitivity training</td>
<td>Team development</td>
</tr>
<tr>
<td>Mentoring</td>
<td>Role analysis technique</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INTERGROUP INTERVENTIONS</th>
<th>ORGANIZATIONAL INTERVENTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third-party peacemaking</td>
<td>Survey feedback</td>
</tr>
<tr>
<td>Intergroup team building</td>
<td>Open system planning</td>
</tr>
<tr>
<td>Rotating membership</td>
<td>Sociotechnical system design</td>
</tr>
</tbody>
</table>

The target of an OD intervention is the intervention’s focus. Interpersonal, group, inter group and organizational relations can all serve as targets of OD interventions. An intervention’s depth reflects the degree or intensity of change that the intervention is designed to stimulate.

**4.8.1 Interpersonal interventions**

Interpersonal interventions focus on solving problems with interpersonal relations, the organization may attempt to redefine personal roles or clarify social expectations. Individual process interventions aim at improving organizational performance by developing specific skills of individuals. These OD interventions are the most personalized of all and probably the most widely used by organizations.
Interpersonal interventions in an OD program are designed to enhance individual skills, knowledge, and effectiveness, but different OD interventions fit to different situations and different problem areas. When OD interpersonal interventions are used in conjunction with a careful diagnosis, they have proved helpful in better individual and organizational functioning.

The most common examples of this type of interventions are learning strategies, life transitions, mentoring and interpersonal communications.

### 4.8.2 Sensitivity training

Sensitivity training is often offered by organizations and agencies as a way for members of a given community to learn how to better understand and appreciate the differences in other people.

As a deep interpersonal intervention, sensitivity training focuses on developing greater sensitivity to oneself, to others and to one’s relations with others. This technique is designed to promote emotional growth and development and typically takes place in a closed session away from work. This training session may last for a period as half a day or go on for several days, in which training participants take part in an intense exchange of ideas, opinions, beliefs and personal philosophies as they struggle with the process of structuring interpersonal relations. By completing this process, people learn more about their own personal feelings, inclinations, and prejudices and about what other people think of them. Sensitivity training is a deep intervention that can initiate profound psychological change. So change agent overseeing sensitivity training must be a trained professional who can help participants deal with criticism in a constructive manner.

### 4.8.3 Group interventions

Group interventions are designed to solve problems with a group or team performance and focus on helping the members of a group to learn how to work together to fulfill the group’s task and maintenance requirements.

Group processes interventions aim at improving different aspects of a group performance, such as goal setting, development of interpersonal relations among team members, role clarification and analysis, decision making, problem solving and communities of practice. One of the most important objective of team building interventions relies on improving interdependency of team members.

OD group interventions are designed to help teams and groups within organizations become more effective. Such interventions usually assume that the most effective groups communicate well and facilitate a healthy balance between both personal and group needs.

### 4.8.4 Team development

Team Development workshops concentrate on helping team members, as a group, to develop capacity to understand their own and other’s styles, communicate for understanding, negotiate conflict and solve problems.

Team development is a deep, group-level extension of interpersonal sensitivity training. In this process a group of people who work together on a daily basis meet over an extended period of time to assess and modify group processes. On these meetings participants focus their efforts on achieving a balance about an understanding and commitment on common goals, analysis and review of group processes, trust and openness in communication and a strong sense of belonging on the part of all members. The group engages in a diagnostic meeting in which a change agent helps members identify group problems and map out possible solutions. Based on the results, the change agent and group implement interventions chosen during diagnosis to solve problem, are identified by the group or the change agent initiates group sensitivity training to uncover additional problems.
4.8.5 Inter group interventions

Inter group interventions are integrated into OD programs to facilitate cooperation and efficiency between different groups within an organization.

Inter group interventions focus on solving many of the inter group problems concerning conflict and breakdowns in inter group coordination. OD interventions developed to manage inter group relations involve various open communication techniques and conflict resolution methods. It helps in the interaction and communication between the work groups, which eventually avoids dysfunctional competitiveness among them. Inter group team building entails the procedure of discrimination and combination.

Inter group interventions are integrated into OD programs to facilitate cooperation and efficiency between different groups within an organization. OD techniques for dealing with inter group problem include third-party consultation and inter group team building as well.

4.8.6 Inter group team building

Inter group team building is a deep intervention that aims to improve interaction between groups, decrease counter-productive competition between groups and replace group-centered perspectives with an orientation to work together.

Two groups meet with an OD change agent and discuss whether relationships can be improved. In later meeting group members assess progress made to date and additional actions are planned for ensuring inter group cooperation. OD methods provide ways of increasing intercrop communication, because two groups set priorities and together take action for resolving the problem. The main aim is to build the working relationship between two teams. It works well when teams depend on each other. Intercrop team building consists of a series of planned activities to help groups to improve their social interactions (diagnosis) and devise more effective ways of working together (relationships).

4.8.7 Organizational interventions

OD organizational interventions are used to directly create change through an entire organization, rather than focusing on organizational change through subgroup interventions. Organizational interventions are intended to deal with structural and cultural problems and are directed at improving communication and coordination within the organization, strengthening relations between the organization and its external environment. Because the main goal of a healthy organization is to develop generally open communication, mutual trust and confidence between and across all organizational levels. So one of the most difficult tasks for the change agent is to help creating a safe climate for learning and change. One of the most popular organizational interventions is survey feedback

4.8.8 Survey feedback

This technique basically entails using survey for employee attitudes at all levels of the company and then disseminating a report that details those findings. The employees then use the data in feedback sessions to create solutions to perceived problems. A number of questionnaires specifically for such interventions have been developed.

Survey feedback technique stimulates information sharing through the entire organization, planning and implementing change. Under the guidance of a trained change agent, top management engages in preliminary planning and decides who should be surveyed. Then the change agent administers the survey questionnaire to all organization members and later categorizes and summarizes the data. After presenting this information to management, the change agent holds group meetings to let to know results. The group leaders diagnose the results and identify specific problems, making plans for constructive changes. But everyone in the organization also participates in analyzing the data and in planning appropriate actions.
4.8.9 The evaluation of organizational development

Evaluation is a critical step in the OD process, appearing in almost all the process models. No matter what type of organization development intervention is used, the concluding stage of the OD process always consists of an evaluation of technique’s effectiveness. Based on the results of this evaluation, efforts may be devoted to ensuring that the newly developed attitudes, values and behaviors become permanent fixtures in the organization.

Since OD is directed towards long-term change, organizational development programs have to be monitored on a regular basis. An accurate evaluation of organizational development interventions is dependent on the accurate diagnosis of the current situation and the clear identification of the desired results. Moreover, to change individuals, groups or organizations takes time and money. Change programs can be evaluated by complicated measurement techniques, statistics and research designs, but there are a number of problems evaluating development as well. It is difficult to isolate the effects of the change. Moreover, there is often a time lag between development and evaluation and it is often difficult to specify what to measure.

Evaluation processes consider both the implementation success of the intended intervention and the long term results it produces. There are two distinct types of OD evaluation: one intended to guide the implementation of interventions and another to assess their overall impact. Two key aspects of effective evaluation are measurement and research design. Both kinds of evaluation provide organization members with feedback about interventions. Even most OD interventions require significant changes in people’s behaviors and ways of thinking about organizations, but they typically offer only broad prescriptions for how such changes are to occur. Negative results on these measures tell members either that the initial diagnosis was seriously flawed or that wrong intervention was chosen. Such feedback might prompt additional diagnosis and a search for a more effective intervention. Contrarily, positive results tell members that the intervention produced expected outcomes and might prompt a search for ways to institutionalize the changes, making them a permanent part of the organizations normal functioning.

To conclude, the variables measured in OD evaluation should derive from the theory or conceptual model underlying the intervention. The model should incorporate the key features of the intervention as well as its expected results.

4.8.10 Conclusions

After the analysis of organizational development, it can be carried out the conclusions that nowadays organizational development is a growing field that is introducing a more output-driven business centered focus to processes of change and is responsive to many new approaches upon modern organizations. OD is not just theory, but also practice of planned, systematic change in the attitudes, beliefs, and values of the employees through creation and reinforcement of long-term training programs.

Organizational development starts with a careful organization-wide analysis of the current situation and of the future requirements, using techniques of behavioral sciences such as sensitivity training, team development and survey feedback. According to all organizational development techniques, OD trying to enable the organization in better adaptation to the fast-changing external environment of new markets, regulations and technologies.

So a key emphasis in OD is assisting clients not just in meeting their goals with learning new problem-solving skills, which they can use in the future, but also increasing productivity and employee satisfaction, quality of work life, bringing effectiveness in terms of business growth and profit as well.
Review questions

- How do you understand organizational development?
- When organizations need to start implementing organizational development?
- How can training and development contribute to organizational success?
- What strategic partnerships are available for organizational development?
- In your opinion, which OD intervention is most difficult to implement in organizations?
- Why is it always important to evaluate the results of OD intervention?

References

5 TEAMBUILDING

5.1 Introduction

Teams are the corner stones of contemporary organizational structures. Team work is not fashion, as many new conceptions were, it is a necessity of present and future organizations. There are many reasons for that. The most important layers in the fact that problems, as well the tasks, within the contemporary organization, become more complex and complicated on the one hand and on the other hand the knowledge and capabilities of professionals become more and more narrower. For that reason individuals are less capable the complex problems and carry out the complicated tasks. The answer on that is teambuilding concept.

“Teams” – we all are used to this word in all areas of our life. We are members of many teams, for instance, members of sports teams, members of our family-teams, maybe members of teams in the part-time jobs and of course members of teams in our academic life. Not just during the years at university we have to work in teams, also in later years we have to be members of teams in our jobs several times. But why are teams often considered as the perfect solution to handle any sort of business? And what are teams actually? How should they be built to come up to one’s expectations? And what makes a promising team successful in the end of the day?

“The crew worked as a team, not as individuals - and that saved the lives of all 155 people aboard”. This sentence is a citation of the US National Transportation Safety Board (2009) after the US Airways Flight 1549 from New York City to Charlotte, North Carolina on January 15, 2009. The plane ditched in the Hudson River few minutes after departing from LaGuardia Airport. The rescue of all passengers shows why perfect coordinated teamwork is important and more promising than the simple addition of single performances. In other words, „team synergy occurs when a team’s output exceeds the sum of the output of the team members working individually” and requires more than merely assigning individuals to a team” (Autrey, 2005, p. 4).

Generally speaking, the effectiveness of teams is expected to be higher than alternative forms of labor organizations. This is the most important reason why teamwork in all areas of business is so important. In detail, teams are assumed to increase flexibility in decision-making processes, to be a more flexible institution to changing conditions, and to provide higher creativity, innovation and commitment, which results in higher performance (Clegg et al. 2008, p. 92 / Schermerhorn et al. 2005, p. 194-197 and 208).

After a definition of the term “team” I would like to explain Bruce Tuckman’s model of group development to gain a basic understanding of the stages a group and therewith a team has to run through. Thereafter, I introduce Belbin’s Team Role Model, including the different existing team roles, which are the essential factors of successful teamwork. Besides this, critical factors of team formation will be identified. In the end, a short conclusion resumes the achievements of Tuckman and Belbin, and a summary will abstract the most important facts.

5.2 Definition of teams

At first we will to point out that a differentiation between groups and teams are subtle and therefore the use of those terms is interchangeable in the following.

A team, referring to Clegg et al. (2008, p. 92), can be defined as two or more people psychologically contracted together to achieve a common organizational goal in which all individuals involved share at least some level of responsibility and accountability for the outcome. “In other words, a team is small group of people with complementary skills who work actively together to achieve a common purpose for which they hold themselves collectively accountable“ (Schermerhorn, 2005, p. 218). Belbin (2010, p. 98) sees the essence of a team as a set of players who have a reciprocal part to play, and who are dynamically engaged with one another". His key words for successful teamwork are communication and participation (Belbin, 2010, p. 99).
Thus, a team is characterized by different criteria. It consists of at least 2 persons who want to achieve a common goals with collective responsibility and accountability. Members of a team should have a feeling of affiliation and cross approval. Further attributes are common procedures and the existence of long-term interactions between members (Schreyögg, 2005, p. 595).

Basically, there are two different types of teams: formal teams and informal teams. Formal teams are deliberately planned and arranged, particularly with regard to their tasks. Furthermore, formal teams can be differentiated in “permanent teams” (e.g. production teams) and “temporary teams” (e.g. task groups or project teams). In contrast, informal groups base on feelings of sympathy or common interests. They exist between certain persons in addition to formal teams and to some extent contravene them (Schmerhorn et al. 2005, p.198 / Schreyögg, 2005, p. 594 / Clegg et al. 2008, p. 96). Definite separations between these both are often hardly possible (Blau, Scott, 1962, p. 6).

The process of teambuilding is absolutely important to set the course for successful team performances. Schermerhorn et al. (2005, p.181) define teambuilding as a sequence of planned activities designed to gather and analyze data on the functioning of a team and to initiate changes designed to improve teamwork and increase team effectiveness.

5.3 Tuckman’s stages of group development

- Before further explanations about the different team roles follow, it is necessary to explain which stages of development a group actually passes. Every team is a group but not every group is a team.
- If we consider this, we can use Tuckman’s model as a helpful approach to understand how teams develop over time. In the beginning of the 1960’s, Bruce Tuckman (born 1938) produced one of the most quoted models of group development when publishing the article “Developmental sequence in small groups” in 1965. This model consists of five stages which are called:
  - Forming,
  - Storming,
  - Norming,
  - Performing and since the 1970’s also
  - Adjourning.

The model was broadened for the fifth stage in the mid-1970’s and published by Tuckman and Jensen (1977, p. 419).

5.3.1 Explanation of the single stages

The following detailed explanation according to Forsyth (2010, p. 129ff) may show what these different stages are marked by.

At all the different stages, Tuckman (1965, p. 69) differentiates between „group structure” and “task activity”. “Group structure (group as a social entity) is the pattern of interpersonal relationships and the way members act and relate to one another” (ibid.), whereas task activity (group as a task entity) is the content of interaction as related to the task at hand (ibid.).
Forming. The “Forming”-stage is the stage of testing and orientation. In these first meetings, members become familiar with each other, dependency and inclusion issues become recognizable. Besides this, leader and the group consensus obtain acceptance in this first phase. Regarding to Forsyth (2010, p. 130), the members communicate polite and tentative. Ambiguity and group goals are clarified. At this level the leader is the most active part, the other members are compliant. The team figures out information demands, plans further procedures and tries to get a clearer understanding of performance requirements.

Storming. After the “get to know each other” phase, the stage of conflicts takes place. Members start with the expression of dissatisfaction and the first discussions over processes and procedures emerge. In this period of time, tensions between members occur. The stage of storming is marked by hostility and poor attendance as well as polarization and the creation of coalitions. Besides this, rules have to be arranged. In the “task activity”-section, a gap between the task requirements and the individual point of view may arise and may lead to resistance against the performance demands.

Norming. During the norming stage, the level of communication increases and a growth of cohesiveness and unity are observable. The different roles, standards and relationships are established and conduce to more trust within the team. All in all, the group becomes unified and organized. Based on trust, a corporate identity arises and conduces to higher agreement on the procedures and a reduction in the role ambiguity. Openness also increases in the task entity. An exchange of ideas and opinions takes place and alternatives are considered.

Performing. Performing is the level of constructive action. After the adoption to other members and to conditions, the stage of work is achieved. With a high task-orientation and the emphasis on production and performance, the group tries to achieve the targeted objectives. Mutual cooperation leads to useful decision-making. Problem solving characterizes this phase. Channeling the group energy into the task causes the emergence of solutions and maximal effectiveness.

Adjourning. Two different possibilities may occur in the last stage – planned dissolution or spontaneous dissolution. Planned dissolution emerges when the achieved goals are reached or the group exhausts its resources and time because of failing repeatedly their achieved goals. On the other side, a not scheduled dissolution occurs when an unexpected problem arises and the continuing of the work becomes impossible. Disintegration and withdrawal may occur and the emotionality and independence of the single team members increase. In the social entity, team members may feel sad about the upcoming split-off of the team. Anxiety about the separation may occur. After finishing the actions, the task entity has to evaluate itself.

The first four stages have to be recycled again after every larger modification in the team like replacements or added tasks (Cramer, 2007, p. 87).

5.3.2 Criticisms of Tuckman’s model

Some points of criticism regarding Tuckman’s traditional model have to be mentioned. At first, Tuckman assumed in his approach from 1965 that team development is a linear process. Other researchers, in contrast, proposed at the same time cyclical models, so e.g. Bales (1965). He indicated, that group members tend to seek a balance between accomplishing the task and building interpersonal relationships in the group. At one
point the focus will be on the former, at another on the latter“ (Smith, 2005). On the long run, this leads to a movement between „morning“ and „performing“. According to Cramer (2007, p. 87), none of the four first stages can be missing. If one stage is leaped, it has to be catches up later. This underlines the main criticism that the sequence is a cycle, not a linear one (see figure 2).

Figure 5.2: Modified model of Tuckmans Group Development Model (Smith 2005)

Nowadays, the prevailing view assumes that team development processes are rarely straightforward. „Human processes are frequently characterized by variability and flux“ (Smith, 2005), but nonetheless he also concludes there does seem to be some truth in the assertion that small groups tend to follow a fairly predictable path.“ Furthermore, Tuckman’s model is more a prescriptive than a descriptive one. Though teambuilding procedures are not completely foreseeable. This is reason why unexpected movements between different stages were not calculated by his model.

All in all, Tuckman’s model is “only” a theoretical conceptualization. Referring to Cramer (2007, p. 87), Tuckman never tried to verify it empirically. Nevertheless, the approach is the most influential model of the developmental process and is a helpful starting point about possible stages or phases within different small groups (Smith, 2005). As well as Smith, Cramer also confirms that the model is still important in theory and praxis, despite its conceptual disadvantages (2007, p. 87). Furthermore, Hüsgen (2005, p. 56) states that most of the later stage models trace back to Tuckman. Referring to Clegg et al. (2008, p. 106f.) the strength of Tuckman’s Model and therefore the reason for its unbowed actuality is the relatively simple framework for understanding that certain things are happening at certain stages and that these influence the effectiveness of the team.

5.4 Team Roles

Essential elements of a team are its members. These members are chosen because of their qualifications and skills. Schermerhorn et al. (2008, p.185) define a role as a set of expectations for a team member in a job. The single positions of a team are assigned considering the necessary requirements that have to be fulfilled. Though, Belbin (2010, p. 19f.) points out that „the crunch question in the long run is not, therefore, what a prospective employee knows, or what specialist skills are possessed: what matters most, given a fair field of adequately qualified candidates, is how the chosen person is going to behave.“

In the 1970’s, Belbin and his team started a big survey to analyze the effect of team composition on its performance, based on different personality styles of the members. The scientists figured out that the difference between success and failure for a team was not dependent on factors such as intellect, but more on behaviour“ (www.belbin.com). The types of behavior are numerous and influenced by different factors (see figure 3), but referring to Belbin (2010, p. 21), there is just a limited amount of useful behaviors. The helpful ones contribute to a successful achievement of the goals. Belbin emphasizes in his books that his developed Team
Roles are not just personality types but clusters of characteristics. Factors that can raise problems in context to Team Roles are amongst others role ambiguity and role conflict. Whereas role ambiguity occurs when someone is uncertain about what is expected of him or her, role conflict occurs when someone is unable to respond to role expectations that conflict with one another (Schermerhorn et al. 2008, p. 185).

*Figure 5.3: Influencing factors of the Team Role behavior (referring to Belbin 2010, p. 29)*

The underlying factors of the Team Role behavior are personality, thus psycho-physiological factors and mental abilities. According to Belbin (2010, p. 28) high level thought is able to override personality to generate exceptional behavior. Furthermore, current values and motivations may affect it as well as experience and role learning. The necessity of playing a required role improves the personal versatility. Last but not least also field constraints influence the behavior since it depends on factors in the direct environment.

Altogether, behavior can be labeled as the outcome of a variety of factors both learnt and genetic, and role learning can help to develop behavior appropriately (Belbin, 2010, p. 31).

Assuming that the personality of people is based on different characteristics, the research team identified nine separate clusters of behavior, also called “Team Roles”. Referring to Belbin, the term Team Role refers to a tendency to behave, contribute, and interrelate with others at work in a particular way (Belbin, 2010, p. 24). In 1981, Belbin published his 8 role model the first time. In later years the model was broadened for the 9th role, the specialist.

### 5.5 Description of the nine Team Roles according to Belbin

Belbin’s nine Team Roles can be classified by their overall function into three different groups. Implementer, Shaper and Completer can be categorized in the field of “doing/acting”, because of their task-orientation. Whereas Plant, Monitor evaluator and Specialist as issue-driven people belong to the “Thinking or problem-solving”-group. Last but not least, Coordinator, Teamworker and Resource Investigator take care for “People or Feelings” and are therefore called communication-oriented (see figure 4) (Belbin, 2010, Kimpel, Scholz 2006, p. 64).
In the following scheme (see figure 5) nine Team Roles are represented, including their behavioral pattern, their contribution to the team performance and their allowable weaknesses.

Figure 5.4: Classification of the Team Roles

Figure 5.5: Team Role Model (Blebin 2010, p. 22)

Plant. Plants are the creative heads in a team. Due to this they have the ability to solve problems in unconventional, unorthodox ways, though they can be lost in thought and therefore poor communicators.

Resource Investigator. They are the pathfinders in the team. Most important strengths are their ability to communicate, their extroversion and their optimism. But this is also their possible weakness – they tend to be overoptimistic and to lose interest after the initial flush.

Coordinator. Coordinators are faithful leaders who delegate work appropriately and promote decision-making. Sometimes they are seen as manipulative and exaggeratedly controlling.

Shaper. Shapers are challenging individuals and are responsible for boosting other team members to top-performances. Continuously they focus the goal. Shapers have a lot of power and are keen to overcome obstacles. Sometimes these people tend to be insensitive.

Monitor Evaluator. These members are sober, strategic thinkers. They have an overview for feasibility of proposals. Often they don’t spend any energy to inspire their team members.

Team worker. Their biggest talent is their empathy. They care for everyone, are good listeners, patient and therefore helpful concerning social level problems. Their weakness is their inconclusiveness in difficult situations or decision-making processes.

Implementer. Their task is the planning of a workable strategy and to accomplish it as efficiently as possible. Implementers are well-organized and act well-considered. Therefore they are sometimes a bit too slow.

Completer / Finisher. The main focus of completers lies on the end of a team task. They scrutinize the work based on a high quality standard. Completers are absolutely assiduous and assure optimal results. Their disadvantage is their mistrust; sometimes, they worry too much.

Specialist. They have in-depth knowledge in key areas. That’s the reason why they can solve many problems in their special fields. But they have problems to think beyond their own nose and are not interested in all other areas.

The pattern of role balance has a deciding effect on the outcome because „a poor balance would produce a poor outcome“ (Blebin, 2010, p. 21). Favorable results will not be produced when the balance might be wrong, even if the team consists of able people. The composition of the team has therefore crucial importance of the later performance.
5.6 Allowable and not allowable weaknesses

According to Belbin (2010, p. 22), the strength of contribution in any one of the roles is commonly associated with particular weaknesses. He names them „allowable weaknesses” or “flipside to strengths” and indicates that executives are seldom strong in all nine Team Roles (ibid.). Due to the fact that the actual real strength of the team members and their contribution to the team performance could decline, Belbin recommends not correcting the weaknesses (2010, p. 55). From his point of view, „allowable weakness“ is a price that has to be paid for strength, and therefore it does not matter as long as it is a fair trade-off (Belbin, 2010, p. 54). But not all weaknesses are admissible. A thin line separates the acceptable from the unacceptable behaviors (see figure 6). Exemplarily are weaknesses which are attached to the wrong Team Role or when they detract from someone’s Team Role contribution rather than adding to it (Belbin, 2010, p. 55). For a better understanding, the following examples exemplify his thoughts: The way the plant works may matter, that his or her unorthodox working style involves being forgetful and clumsy. “Shapers risk becoming aggressive and bad-humored in their attempts to get things done or Coordinators might get over-enthusiastic on the delegation front and Team workers, concerned with the welfare and morale of the team, found it difficult to make decisions where this morale might be compromised or team politics, involved.“ (www.belbin.com) Finally, Belbin recommends setting different standards in consideration of different personalities and Team Roles.

Figure 5.6: Allowable and not allowable weaknesses

<table>
<thead>
<tr>
<th>Roles and descriptions</th>
<th>Team Role contribution</th>
<th>Allowable weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant</td>
<td>Solves difficult problems</td>
<td>Ignores details; too preoccupied to communicate effectively</td>
</tr>
<tr>
<td>Resource Investigator</td>
<td>Explores opportunities; develops contacts</td>
<td>Overoptimistic; loses interest once initial enthusiasm has passed</td>
</tr>
<tr>
<td>Co-ordinator</td>
<td>Clarifies goals, promotes decision-making delegates well</td>
<td>Can be seen as manipulative; delegates personal work</td>
</tr>
<tr>
<td>Shaper</td>
<td>Has the drive and courage to overcome obstacles</td>
<td>Can provoke others; hurts people’s feelings</td>
</tr>
<tr>
<td>Monitor Evaluator</td>
<td>Sees all options; judges accurately</td>
<td>Lacks drive and ability to inspire others; overly critical</td>
</tr>
<tr>
<td>Teamworker</td>
<td>Listens, builds, averts friction, calms the waters</td>
<td>Indecisive in crunch situations; can be easily influenced</td>
</tr>
<tr>
<td>Implementer</td>
<td>Turns ideas into practical actions</td>
<td>Somewhat inflexible; slow to respond to new possibilities</td>
</tr>
<tr>
<td>Completer / Finisher</td>
<td>Searching out errors and omissions; delivers on time</td>
<td>Inclined to worry unduly; reluctant to delegate; can be a nit-picker</td>
</tr>
<tr>
<td>Specialist</td>
<td>Provides knowledge and skills in rare supply</td>
<td>Contributes on only a narrow front; dwell on technicalities; overlooks the “big picture”</td>
</tr>
</tbody>
</table>

Source: Belbin, 2010, p. 56.
5.7 Concept of Coherence

Belbin turns towards the Concept of Coherence. He defines coherence as a measure of the extent to which disparate types of information build up to offer an integrated and meaningful picture of the personality (Belbin, 2010, p. 49) The corresponding concept deals with the assumption that team performance increases if strengths and weaknesses of one Team Role are combined (and a coherent profile is given) rather than strengths of one and weaknesses of another (and therefore an incoherent profile) (Belbin, 2010, p. 62). What matters is that the self-image and the projected image cohere and that a strategy exists for coping with areas of deficiency (Belbin, 2010, p. 59).

Since single team members can take two or more different roles simultaneously, care has to be taken for combinations of pairings. Whereas some combinations fit quite well, other pairings could spell trouble. Positive examples are, among others, the combination of Shaper and Implementer. Both roles are energetic and tackling. Belbin calls this combination „the image of Action Man himself“ (Belbin, 2010, p. 57). An other example is the mixture of Plant and Monitor Evaluator. This person with his/her mental ability potentially is a creative intellectual with a capacity for good decision-making, ideally placed to develop plans and strategies that may pay off hugely in the long term (ibid.). In contrast to these both positive combinations, also unusual or maybe less natural examples may appear. The combination of Shaper and Team worker is one of these uncommon ones. On the one hand, there is a person with great diplomatic skills and the appropriate energy, who has driving qualities. But he or she can also be seen as reckless and unreliable and the Shapers drive may be cut back by the Team worker’s indecisiveness.

5.8 Selection of team members

At the time of constructing the team on basis of the people available, it is necessary to take care for some relationship characteristics. At this point, not all of the possible problems between the special roles will be discussed. Nevertheless, the problematic cases shall be discussed briefly.

If some information about the employees’ character and behavior exist, the likely outcome is predictable. Hence, the usage of this knowledge during the stage of work-relationship building is important to increase the chances for success.

Due to that reason, a subordination of the Coordinator to a Shaper should be avoided.

An expected clash of styles is conceivable. In the eyes of a Shaper, the Coordinator works to slow and indirect. A narrow equal-ranking working-relationship between Plants and Implementers is also not recommendable, as their basic aims and working methods are too different. By contrast, the relationship between Shaper and Monitor Evaluators would be more promising; the risk of such a style check is lower. Monitor Evaluators should not be assigned to a leading role. No one listens to their advices, they are overridden, and according to Belbin may end up having no real role at all“ (Belbin, 2010, p. 65). A relationship between Plant boss and Implementer subordinate is also one of the more promising and successful.

Specialists are wide-ranging deployable. Only with Plants problems may occur caused by the fact that Plants with their problem-solving competence intervene in the certain field of the Specialists. Monitor Evaluators are the trouble-free components of a team. Attention should be paid to the point that too narrow relationships to their sort or Completer Finishers may lead to endless debates and uncertainty. Completer Finishers have most conflicts with Resource Investigators. The restrictiveness of the Resource Investigator and the flightiness of the Completer Finisher collide in this combination. Implementers should not work in a too narrow relation to other Implementers or Plants. Especially in the relationship to Plants, the differences in priorities and values may cause tensions. Team workers are also uncomplicated work partners.

All in all, a lot of mistakes could be made during the time of team composition. Focus of interest should be the interaction between key individuals and of course the team balance mentioned above. Belbin points
out that the „people need to take on a secondary role if they see a conflicting duplication in Team Roles“ (Belbin, 2010, p. 71).

After explanations about the different Team Roles it is necessary to consider what kind of requirements a candidate has to fulfill to be able to match the job demands. Belbin differs in two categories: eligibility and suitability. Eligibility involves the entry criteria to a job like qualifications, relevant experience, other references and the acceptability at the conducted interview. Suitability covers the performance criteria, e.g. aptitude, versatility, assessments and how his or her role fits with those adjacent to the job. According to Belbin, candidates are able to compensate a lack of aptitude by seeking recognized qualifications, but he indicates that aptitude usually wins through in the long run (Belbin, 2010, p. 37). Furthermore he classifies assessments as more meaningful than references. In his eyes, only assessments enable the candidates to be compared on the same level whereas references cause distortion. Belbin developed a 4-quadrant-overview and used the two factors eligibility and suitability as independent dimensions. It is incontestable that some aspirants are ineligible but suitable for a job and others are eligible but unsuitable. But how should this placement dilemma be solved?

In the following table (see figure 7a + 7b), the expected and observed outcomes of employees in the mentioned categories are shown.

**Figure 5.7: Expected and observed outcomes**

<table>
<thead>
<tr>
<th>Figure 7a): Expected outcomes (Belbin 2010: 38)</th>
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<tbody>
<tr>
<td><strong>suitable</strong></td>
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<tr>
<td>eligible</td>
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<tr>
<td>ineligible</td>
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<table>
<thead>
<tr>
<th>Figure 7b): Observed outcomes (Belbin 2010: 38)</th>
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</thead>
<tbody>
<tr>
<td><strong>suitable</strong></td>
</tr>
<tr>
<td>eligible</td>
</tr>
<tr>
<td>ineligible</td>
</tr>
</tbody>
</table>

*Source: Belbin, 2010, p. 38*

Due to surveys, Belbin and his team had learned that the expected outcome of team members (classified in the two independent dimensions) does not coincide with the observed ones. According to that, candidates who were categorized as suitable and eligible were expected as the ideal fits. But in actual fact, the outcomes of these candidates were just disappointing. Paradoxically, people who fit in well are not always ideal. Belbin mentions two reasons to explain this surprise: First, in most cases the current job is just one step on their career ladder and they often have a short duration in the job and second, in their ideal fitting job, they only “build up eligibility for an even bigger job” (Belbin, 2010, p. 41), whereas the expected poor fits, who were unsuitable but eligible, became the real problems. They were reluctant to move and started to cause problems in the team. Surprise fits are ineligible people who turn out to be suitable, and they met the researcher team’s expectations. But they can be seen as windfalls and are therefore quite seldom. In contrast to the ideal fits, they can be seen as long-term benefit for the team and their action is more sustainable.

Attention should be paid also to the recruitment policy. It is hugely important to avoid a cloning policy, that means the hiring of people who all have the same knowledge and social skills. Clone cultures are defined as a very dominant outlook and mindset that results in only employing one type of person (Belbin, 2010, p. 106). Referring to Belbin (2010, p. 100), the using of cloning policy may be the root cause of problems. He gives the advice to tackle these deficiencies by altering standard recruitment practices and to have in mind in which areas a team is already proficient and which areas have to be covered to keep the company going (ibid.)
5.9 Composition of the different Team Roles

Just to know which Team Roles exist is helpful. Nevertheless it is inevitable to consider not only the single members but also their composition to create a balanced and promising team. Balance of the primary roles is the key to reach ambitious goals (www.belbin.com). It is necessary that team members know their roles, as well as they have to extend their strengths and to handle their weaknesses.

An example for a promising team is the following structure:

- Cocoordinator or Shaper (not both) for the leadership position,
- Plant to stimulate ideas,
- Monitor Evaluator to maintain honesty and clarity,
- and one or more Implementer, Team worker, Resource Investigator or Completer/Finisher responsible for the realization of the ideas.

Of course this list is not intended to be exhaustive. It is supposed to be an approach how teams have to be built up. In this manner, the fulfillment of the team task can be expected. Belbin recommends building up teams with a good spread of Team Roles. It is an essential requirement here, since over a period of time a firm may find itself in a number of different situations (Belbin, 2010, p. 116). On his webpage (www.belbin.com) he mentions different examples what positive and negative effects the staffing with false Team Roles may mean. Exemplarily he brings up the Plants and the Shaper. On the one hand, a plant is necessary for the team to come up with the initial spark but on the other hand, too many plants can connote that non-starters were given too much airtime. Likewise the team ambled along without drive and direction and is missing deadlines when the shape-position is unoccupied. But too many Shapers may cause in-fighting and lower morale.

Belbin defines a leader as a person who „unhesitatingly takes on any role and assumes any responsibility that would otherwise fall into the province of a subordinate“ (Belbin, 2010, p. 121). Likewise the leading position has to be staffed appropriate to the general situation of the organization. In one situation, the firm needs a tough decision-maker (Shaper) and a while later maybe a visionary (Plant) to find a new position in the market competition, and afterwards a consolidator (Implementer) (Belbin, 2010, p. 116).

Two different leadership styles are possible, as there are solo leaders and team leaders. Solo leaders enjoy free range and rules and differ from team leaders that team leaders limit their roles to preferred Team Roles. Advantage of a solo leadership is the fast overcoming of obstacles a therefore a faster decision-making in urgent cases (ibid.). When a task starts to become more complex urgency is not that is not given, team leaders are the more appropriate ones. They are more decent; do not expect to be more creative or cleverer than other team members. Team leaders build on diversity, seek talents and develop their colleagues. They do not feel threatened by smart people with special abilities (Belbin, 2010, p. 122). This species has more respect for other team members, trusts them and therefore delegates more tasks. All in all, the team leader style allows spending more time to achieve the focused outcomes (ibid).

Belbin also advises caution in the handling of grooming individuals, since even they are not always the appropriate leader under the given circumstances (Belbin, 2010, p. 117). Replacements of team members with carbon copies are also not recommendable since personalities are too complex and even small distinctions can reason big differences the later outcome (Ibid.).

In the 1970's, Belbin and his team discovered the „Apollo Syndrome“, a phenomenon where teams, formed of intelligent people with high abilities and sharp, analytical minds, just produced poor intra-group-outcomes (Team Technology). All in all, the „lack of coherent teamwork nullified the gains of individual effort or brilliance“ (Belbin, 2010c). According to Belbin, error causes of their teamwork were the spending of garrulous destructive discussions to persuade the other team members of their views. For that reason, they missed other important activities. Consequently, they had difficulties in the decision-making process, the team members acted as they wanted and the team became difficult to manage (ibid.) Belbin characterizes Apollo teams as „difficult to manage, prone to destructive debate, and having] difficulties with decision-making” (Belbin, 2010c). According to him, „each individual disrupts, rather than contributes to, the effec-
tive functioning of the group as a whole” (ibid.). Successful “Apollo teams” are referring to Belbin (2010b, p. 17) characterized by the absence of highly dominant members and chairman and are conducted by a special way of leadership.

Successful leaders of Apollo teams have to be suspicious and sceptical and have to try to impose group discussion patterns, and to control team performance. Nevertheless, an “Apollo team harmony seems highly unlikely” (Belbin, 2010c).

The first steps in construction a team is to make considerations about the teams’ purpose. This is not that easy, but when the team’s goals are set, the process of team building can begin. But who should be staffed at first – the project manager or the genius (respectively someone with an outstanding talent)? Belbin’s formula for success recommends starting with the genius (because of his/her special character or behavior) and simultaneously or afterwards to look for a manager who relates well to the genius (Belbin, 2010, p. 102).

Teamwork is often used for projects. According to the different project stages, members with coherent profiles and different Team Roles are necessary.

Belbin (2010, p. 104) mentions following six stages and the appropriate Team Roles that may contribute most at this levels:

- Identifying needs. Some projects fail because the wrong targets are set. Shapers and Co-ordinators are the key figures at this level and are able accentuate their strengths.
- Finding ideas. Plants and Resource Investigators have a crucial role to play in formulating process of target achievement.
- Formulating plans. This step involves two prime activities. The first one is setting out and weighting up the options, the second is the usage of relevant experience and knowledge to assure the success of the project. Monitor Evaluators and Specialists are protagonists at this stage.
- Making contacts. Resource Investigators and Teamworkers have the responsibility to persuade the appropriate persons of the new plans and ideas and have to becalm the adversaries of the approach.
- Establishing the organisation. Implementers have to take care for the implementation of procedures, methods and working practices until they become routine, whereas the Co-ordinator has to make the people work while getting the people fit the system.
- Following through. A successful conclusion of the project should be the concern of all team members. The Completer Finishers pull their weight in this area and try to achieve the aspired goals.

At best, all relevant Team Roles with their special skills are represented and the team is balanced. But the selection of a balanced team is difficult. One possibility may be to appoint new individuals with contrasting roles, like mentioned above. Belbin suggests that the team should be diverse, but as small as possible (nevertheless it should be a balanced team out of all relevant roles) because in surveys they showed “greater balance, success and flexibility than larger ones” (ibid.). In his eyes, an ideal team consists of four but never less than three members.

After the determination of the necessary roles and the expected knowledge, the different team members have to be castled. Care has to be taken that the candidates are ideal for their parts.

The last step is the definition of the way the objectives should be accomplished. But this style depends on the different members and their roles and unfortunately no sample solution exists (ibid.).
5.10 Conclusion

Belbin’s Team Role Model is an approach to explain the influence of team member behavior on the effectiveness of a team. After recognizing their own strengths and weaknesses, the single members can be integrated much more successful in teams. On the basis of information out of self-evaluation via questionnaires and feedback from independent observations, the behavior of members is more predictable and team builders and later team leaders are able to deploy them accordingly to their appropriate Team Roles. In addition, occurring conflicts become more comprehensible and reducible (Kimpel-Scholz, 2006, p. 69). An accurately fitting position helps them to maximize their efforts and therefore boost the outcome of the team performance. Success or failures depend on the capability of a team, particularly in more complex and challenging tasks to cope with.

Tuckman’s and Belbin’s models contributed to the perception that teams develop and change over time. Therefore teamwork “requires constant reflexivity of one’s role tasks” (Clegg et al. 2008, p. 122). Tuckman’s approach explains the development of social groups and their group processes and therefore is important for the understanding of group dynamics. Belbins Team Roles link to Tuckmans idea while evolving during the group dynamics. The team roles explain the influence of team member behavior on the effectiveness of a team. Belbin’s model helps to understand the different personalities and to establish the Team Roles adequately to avoid later problems like role ambiguity or role conflicts. Hence, for more than 30 years, Belbin’s work contributes to a better understanding of essential team processes (Dick-West, 2005, p. 27). However, critical comments to his approach raise concerns about the insufficient inclusion of the different kinds of task (Dick-West, 2005, p. 27). Furthermore, they give cause to concern that not all of the team members have the same commitment to their work, but this fact has met with no response (ibid.). Besides this, some researchers argue that Belbin’s Team Roles neither have validity nor reliability (Furnham et al. 1993, Fisher et al.1996), others in contrast (e.g. Aritzeta et al. (2007) confirm the validity of it.

All in all, Belbin’s and Tuckman’s models are two of the well-known approaches of team management and made a substantial contribution for scientific and practice.

Review Questions

- What do following key terms mean?
  - Team
  - Team Role
  - Teambuilding
  - Concept of coherence
  - Apollo Syndrome

1. Name and describe the development stages of a group!
2. Which factors influence the behavior of group members and therefore the Team Roles?
3. Explain briefly Belbin’s Team Roles!
4. Which problems may arise when different behavior patterns are unnoted?
5. Which leadership styles does Belbin mention and what are their special characteristics?
6. What do you think about these statements?
7. “When two [persons] in business always agree, one of them is unnecessary.” How far can this citation of William Wrigley (chewing gum producer) from the beginning of the 20th century be associated to the presented models?
8. What do you think is an effective team leader marked by? And what behavior would you expect of your team leader?
9. What could happen if one team member is a “loner”? How should the leader deal with this situation?
References

6 MODELS OF QUALITY MANAGEMENT

6.1 Introduction

When we are talking about quality we usually think on something good or even excellent. General definition of quality does not exist. The notion of quality depends upon the social characteristic of environment and it is changed through the time.

Feigenbaum (1991, p. 7) defined the quality of products or services as a set of characteristic feature of marketing, development, manufacturing and maintenance by which product or service satisfy the expected customer needs. About quality always decides the customer.

The American Quality Associate (Kotler, 1998, p. 56) defines the quality as a set of feature and characteristics of product or service which affect their capability to satisfy expressively customer needs.

All kind of quality definition warn us that quality of product and services always based on customer needs and wishes.

There are two kinds of quality, so called standard quality (objective) and subjective quality. Objective quality we can measure upon the determed standard. Subjective quality is not easy to measure because it should be in accordance with customer expectation.

Organizations can guarantee the quality of services by implementing a quality management system. The quality management system can be implemented in the organization according to different models. Quality management is focused on increasing customer satisfaction, but also other stakeholders.

Regardless of sector, size, structure or maturity, organizations need to establish an appropriate management framework to be successful. Excellent organizations achieve and sustain superior levels of performance that meet or exceed the expectations of all their stakeholders. All organizations strive to be successful, some fail, some achieve periods of success but ultimately fade from view, and a few achieve sustainable success, gaining deserved respect and admiration.

In the field of quality management, there are several models. In our paper we focus on the most widely used models in the EU countries and also globally. This chapter is divided into two parts. First one says about the history of TQM, concepts of quality management based on TQM and prices awarded in the field of quality management. In second part we describe chosen models and international quality standards in more details.

The rise of Quality Management (QM) in the world of business is normally associated with the implementation of Quality Systems based on the ISO 9000 international standards and, in Europe, of the Excellence Model of the European Foundation for Quality Management (EFQM), one of the international models for establishing Total Quality Management (TQM) system in companies.

Within the public sector, on the basis of EFQM, the European Commission issued that the CAF (Common Assessment Framework) model was to be formed as a common framework for public sector organizations, and that is why we give more attention to this model.
6.2 Total quality management

“Quality is a process, not a product.”

Organization can guarantee the quality of services by compliance and implementation a quality management system.

Quality management system can be implemented in the organization according to different models. Quality management is focused on increasing customer satisfaction, but also other stakeholders.

We consider total quality management, its nature, history and characteristics of selected models according to the concepts of quality management. According to standards ISN 9000:2005, quality is the rate at which the set of characteristics fulfills requirements. The concept of quality can be used with attributes: great, good or bad. Quality has its own and assigned characteristics. Own (self-description) characteristic is meant as a permanent characteristic of quality. Assigned characteristics are not related to the quality characteristics, by may be awarded to the process or system. It can be for example price, owner, etc.

Recently, a further private sector initiative has begun to impinge on management thinking in the public sector – the quality approach. In an increasingly competitive environment, organizations need to improve their performance in order to gain an edge over rivals. As with corporate management, systems analysis and other approaches, quality has hit the public sector management agenda (Lawton, Rose, 1994).

To support the increase and implementation of quality management in Europe, there was established European Foundation for Quality Management (EFQM). In 1994, the European Union adopted a document about European policy of promotion of quality.

The Local Government Training Board defined quality as that what gives satisfaction to the customers. Quality assurance is about setting up systems that ensure that a service or product consistently achieves customer satisfaction. Hence there cannot be one simple formula for quality – each organization has to develop its own approach (Lawton, Rose, 1994).

Most approaches to quality emphasize (Lawton, Rose, 1994):

- change in the culture of the organization and attitudes of staff;
- commitment of management to quality;
- the education and training of staff at all levels in the organization;
- quality written into the objectives of the organization;
- error-free work – “get it right first time, on time, every time” thus moving from 100 per cent inspection to the use of control mechanisms.

According to the authors of the publication “Quality Management” there are determined eight principles of quality management that can be used by senior management to lead the organization towards improving performance:

- focus on Customer: organization has to meet requirements and exceed customers’ expectations,
- leadership: leaders determine the direction of the organization, create an internal environment in which employees are involved in the implementation of organizational goals,
- involvement of employees: full involvement of employees enables to use their skills in favor of organization,
- process approach: when activities and related resources are managed as a process, the desired result is achieved more effectively,
- system approach to management: identifying, understanding and managing interrelated process as a system contributed to the efficiency and effectiveness of the organization in achieving its objectives,
- continuous improvement: the aim should be continuous improvement of total performance of organization,
- decision based on facts: on the basis of the analysis of data and information formed effective
decisions,
• mutual beneficial relationship with suppliers: a partnership with suppliers create mutual beneficial relationship and ability of both of them to create value.

According to Mateides (2002) a Total Quality Management is an approach of the organization’s management, which focuses on quality. It is based on the participation of all members of the organization to achieve long-term success through customer’s satisfaction and benefit of all members of business and society. TQM can be divided into social and technical subsystem. Parts of the technical subsystem of TQM are the principles of TQM. These principles can include customer orientation, quality first, the use of information and Deming circle. The social subsystem is a system aimed at people, which consists of the elements.

Edward Deming formulated 14 points for quality management, which are identified as a Total Quality Management (hereinafter referred to as TQM). TQM is a modification of TQC. Edward Deming became the founder of the best known and most widespread system of quality management and Total Quality Management (TQM).

The most important Deming’ ideas for implementing TQM principles are:
• systematic approach to problem solving known as PDCA (Plan – Do – Check - Act),
• adoption of 14 Deming’ principles of a successful transformation of managers,
• well – trained employees are able to manage their process of production, what excluded controls at the end of production lines,
• quality for customers, because customers are the most important factor in the process of production,
• regular training of all employees.

As other founders of the ideas and principles of TQM we can also consider J. M. Juran, P. Crosby and A. V. Feigenbaum. J. M. Muran have get along from principle that the systematic application of quality is a continuous process and should be started by senior management. According to Juran the quality management is analogous to financial management and means application of three managerial processes. These processes include planning, management and improving of quality. Quality planning is the process of determining objectives of quality. Quality management is the process of achieving the objectives set during the performances. Improving the quality is the process of achieving a better level of performance. These processes are also known as Juran Trilogy (Mateides, 2006).

6.2.1 History of Total Quality Management

The idea of a total quality control (herein after refer to as TQC ) and its application has its origin in Japan. This idea has begun to develop mainly after the Second World War. Since 1980 this idea came into practice in the United States of America, what contributed to the revival of industry. Initially the quality management was associated with the quality in the piece and small batch production. The aim of quality management until 30s of the 20th century was to exclude low-quality products by inspectors, who stood at the end of production lines. Another form of quality management was associated with statistical quality control method. Author of this method was Walter A. Steward. Product quality was assessed on the basis of quality control selection of a representative sample of products (Paul, Hekelová, Satan, Šaglovíčová, 2008).

The next step in the development of quality control has been continuously training of employees. In Western Europe there was a first ‘quality’ wave in the public sector during the early 1990s due to the increasing popularity of the Excellence Model of the European Foundation for Quality Management (EFQM), the ISO 9000 quality system and the Common Assessments Framework (CAF) developed by the EU Member States and European Union (Loffler, Vintar, 2004).

6.22 Concepts of quality management based on TQM

A key task of the implementation of TQM is to understand all parts of the organization and the articulation joint in order to achieve the common objective of common features of the model codes are voluntary, complexity, quality and continuous improvement of the organization. The model application is voluntary,
not impose their standards or no standards. Models cover the relevant areas in the organization and fulfill the TQM philosophy. Using models to assess the quality of the organization as a producer of products and services. Models are revealed through the reserve and explore solutions that deliver desired results (Paul, Hekelová, Satan, Šalgovičová, 2008).

6.2.3 Deming award

According to the website of the Institute dedicated to W. E. Deming Quality Management is a comprehensive set of systematic activities carried out throughout the organization to effectively and efficiently achieve company objectives so as to provide products and services are at the required level of quality that can satisfy customers in a timely and appropriate price.

Deming award is the annual cost for a company that has achieved a significant increase in performance through the application of TQM, regardless of the type of industry, firm size. There is no limit to the awarded organizations because Deming Prize was awarded to any organization that has reached or exceeded a specified number of points (http://deming.org/index.cfm?content=513, 2011).

According to the Institute dedicated to W. E. Deming, the Deming award will be awarded in three categories, and price applications Deming, Deming award for the individual and the price for quality control operations. In 2009 won the Deming award for individuals the Tokyo Institute of Technology Professor Hiroshi Osada. Deming Application Award for 2009, the Japanese company acquired Niigata Diamond Electric Co., Ltd., The Company and the Siam Cement Company Limited White in Thailand. Price of quality control for operation was granted last year in 2007 and won it, and Reliance Industries Limited Hazira Manufacturing Division in India.

6.2.4 Malcolm Baldrige National Quality Award

Malcolm Baldrige National Quality Award is awarded annually by the President of the United States to organizations that demonstrate superior quality and performance. Each year may be granted three awards in six categories of manufacturing, service company, small business, education, healthcare, government and non-profit organizations. The award was named after the Minister of Commerce Malcolm Baldrige, a proponent of quality management. National Institute of Standards and Technology US. Department of Commerce awards the prices and administer ASQ.

Malcolm Baldrige National Quality Award was founded in 1987 by Congress for manufacturers, service providers and small businesses, designed to raise awareness about quality management and recognize US. companies that successfully implement quality management systems. Education and health care as a category was added in 1999. Non-profit category was added in 2007 (http://asq.org/learn-about-quality/malcolm-baldrige-award/overview/overview.html, 2011).

According to the Baldrige Program organizations are judged by an independent commission. Recipients are selected on the basis of success and improvement in seven areas, known as Baldrige criteria for excellent performance:

- leadership - as a senior management leads the organization and how the organization report to the community,
- strategic planning - how to set up the company plans to implement the strategic objectives
- customers and focus on the market - as the organization builds and maintains a strong and long-term relationships with customers
- measurement, analysis and knowledge management - how the organization uses data to support key processes and performance management
- human resources and focus - as an organization supports and affects the workforce
- process management - how the organization proposes, manage and improve key processes,
- business / organizational performance results - as an organization report with regard to customer satisfaction, finance, human resources, suppliers, operations, management and social responsibility, and in comparison with its competitors.
6.3 Excellence models and international quality standards

In European Union are mostly used CAF and EFQM. In use are also models that countries have adopted or designed by themselves (for example: the Swedish Quality Model, used since 1992, INK developed by the Netherlands and also used by Belgium, and KVIK in Denmark (Žurga, 2008).

In past decades the development of society has required conceptual changes, first in the private sector, and soon after also in public administration. Therefore, in order to achieve better results, various tools and approaches were developed. The first were separate (mostly economic) indicators, then, by definition of minimum criteria, the Quality Assurance standards followed, among which the ISO 9000 are the most common. After World War II, upgrading followed for different quality models, which were formed in contrast to the standards, striving to initiate constant improvement (Quality Management). The most visible among these models are those which were adopted for use by different organizations through the procedure of choosing the best practices. In the entire EU the models that are the most valued are undoubtedly the excellence model EFQM and CAF (Common Assessment Framework).

6.4 Model CAF

The Common Assessment Framework (CAF) was created by cooperation of Ministers of the European Union responsible for public administration. In May 2000, was presented the first version of the CAF. The version of the 2006 reflects the desire for greater access to the quality of uniting with the Treaty of Lisbon.

CAF is self-assessment tool designed for public administration, known as the common system of quality assessment (CAF - Common Assessment Framework) was developed on the basis of analysis conducted by the European Foundation for Quality Management, Academy of Speyer in Germany and the European Institute of Public Administration in Maastricht. The main objective was to make public sector organizations have begun to focus on developing quality, increase efficiency, to their own performance using quality tools to focus on solving their tasks for the benefit of customers / citizens and organizations to enable employees to develop.

The CAF is recommended for public organizations in EU member states as a tool for understanding the quality management techniques and their application in their work. The main purpose of the CAF is to provide a simple and easy to use the concept of evaluation of public organizations in the countries of Europe.

The CAF has been designed for use in all parts of the public sector, applicable to public organizations at the national/federal, regional and local level. It may also be used under a wide variety of circumstances e.g. as part of a systematic programme of reform or as a basis for targeting improvement efforts in specific public service organizations. Between 2000 and 2005 about. 900 European public administrations used the CAF to improve their organizations.

The CAF consists of 9 criteria and 28 sub-criteria with examples. Criteria 1-5 deal with enabler features of the organization. Indicates what the organization does and how it lends itself to its role in order to achieve the desired results. Criteria 6-9 measure the results achieved on the relationship of the citizen or customer, employee, company, key performance results by measuring the perception and evaluation of internal variables. Each criterion is divided into sub-criteria, which identifies the main areas to consider for self-assessment of the organization (Guide to the CAF, 2006).
6.4.1 Role of the scoring system

One of the compulsory elements of the CAF is the scoring system. Discovery of strengths and areas for improvement and the linked improvement actions are the most important outputs of the self-assessment. Allocating a score to each sub criterion and criterion of the CAF model has 4 main aims:

- to give an indication on the direction to follow for improvement activities;
- to measure your own progress;
- to identify Good Practices as indicated by high scoring for Enablers and Results;
- to help to find valid partners to learn from.

From a methodological point of view, CAF has four main principles: need to know and document the views, needs and interests of users and other stakeholders, the second principle is the importance of active involvement of employees of the organizations that seek to improve the quality of its work. Next, focuses on exploring, mapping and improvement of core processes of organizations with a focus on processes that govern cooperation in various departments. Last principle is to define and enforce standards and documentation activities as a basis for quality management, which is based on records (Podhradský, 2003).

One of the main goals is to support the CAF self-assessment of public sector organizations in order to obtain a structured picture of the organization and then suggestions for improvement.

6.5 The concept of quality management based on ISO 9000 series standards

According to the author of article Quality Management System and Other Security Standards (2008) is ISO an International Organization for Standardization and was established in 1947. Recently it has about 157 national standards bodies representing different countries. The purpose of the organization is to create international quality management standards ISO 9000.

The standards are intended to organizations of all types and sizes to help establish and operate effective quality management systems. This standard is a guide to develop, review, acceptance, application and revision of quality plans (Bílý, Grauzeľ, Lakatoš, 2008).

The ISO 9000 identified eight quality management principles that can be used by senior management to lead the organization towards better performance. These principles include:

- focus on customer,
- leadership and management,
- employee involvement,
- process approach,
• systemic approach to management,
• continuous improvement,
• decisions based on facts,
• mutually beneficial relationships with suppliers.

ISO 9000 is a tool for compliance with the minimum requirements, and no mechanism for evaluating the competence or excellence. Set of standards ISO 9000 is popular in health care systems in many areas of Europe and is also used widely in the central health facilities (e.g. laboratories, radiology, operating rooms, etc.). (Moeller, 2002)

6.6 EFQM Model

European Foundation for Quality Management implemented a quality management model known as the EFQM Excellence Model. According to the European Foundation for Quality Management EFQM model is general, applies to all organizations and is relevant to all sectors. This European model is suitable for any organization that seeks to continuously improve its operations.

According to the author of the article EFQM Model (2010), EFQM vision is a world where European organizations recognized as a benchmark for the continued economic development. Leaders who are willing to learn, share experiences and develop innovation, using the EFQM Excellence Model. 8 know the basic concepts of excellence:
• achieving a balanced outcome;
• added value for customers;
• visionary leadership to inspire and integration;
• control over processes;
• success through its employees,
• education to creativity and innovation;
• creating partnerships;
• accept responsibility for a sustainable future.

Figure 6.2: EFQM MODEL

EFQM provides services, which are divided into 4 groups, namely: sharing, learning, assessment and recognition. In the pricing system we know 3 degrees of EFQM. The first step is recognition of the organizations involvement, the second step is measurement of organizational performance and the last one is EFQM price for excellence. These levels were created to support the systematic improvement of the organization and help it achieve the highest levels of excellence (Slavicky, 2010).

EFQM Model has 9 criteria. They are divided into 2 groups. The first group is known as the criteria of prediction, which show what has been achieved in the organization. Within this group we include five criteria:
• Criterion 1: Leadership,
• Criterion 2: Policy and Strategy,
• Criterion 3: Officials,
• Criterion 4: Resources,
• Criterion 5: Processes.

The second group of criteria known as criteria for the results, which assess the state what the organization has reached or achieved. These are four criteria, namely:
• Criterion 6: The results in relation to customers,
• Criterion 7: The results in relation to employees,
• Criterion 8: The results in relation to society,
• Criterion 9: Results of core activities.

EFQM Model was designed and is continually improving by the European Foundation for Quality Management (EFQM). This model is the basic method used in the European Quality Award.

6.7 Development and use of the EFQM and CAF models in public administration

Already in the 1950s, Japan had developed its own systemic approach to Total Quality Management (TQM). This development was realized in 1951, when Deming’s Award for quality was awarded to the best companies for the first time. In the USA, the first standards were formed in the early 1960s for the automobile and arms industries, while in the 1980s they supplemented the Japanese model TQM, and in 1988 they awarded the Malcolm Baldrige National Quality Award for the first time. Western Europe developed the Quality Assurance Standards ISO 9000. In 1990 fourteen European companies founded the European Foundation for Quality Management (EFQM) in order to develop a model for quality improvement in Europe. With the support of European Organization for Quality (EOQ) and the European Commission, the EFQM developed the Excellence Model on which the European Quality Award is based.

On the basis of the EFQM and the criteria of Speyer Award, the European Commission issued a decision that the CAF (Common Assessment Framework) model was to be formed as a common framework for public sector organizations.

The CAF model gives consideration to particularities of the public sector, such as the impact of politics on professional work, orientation towards customers, non-financial results, etc. It is also methodologically simple to use. The optimum effects of the model, including the development of organizational culture, are reached if the assessment by the CAF model is performed as a self-assessment based on the principle “the employees are the ones that know the most about their organization.”

6.8 Conclusion

As a conclusion we can say that according to summarizing of the opinion of many experts, it seems that the implementation of QM models has a positive impact on the results of organizations, mainly through the improvement of operations, efficiency and the costs of companies’ internal activities.

Total quality management covers actions across all company and represents changes in three important dimensions. First of all, strategic activity, what is the most important activity of senior management and the main aim is to formulate the objectives and plans of quality. Other one is corporate culture as an open system. And last but not least the structured technical activity as system of quality and technical devices which are used by quality management. Satisfaction of people in the company, customer satisfaction and impact on society are results of the functionality of all three dimensions.
Quality management is a strategic issue and part of the organization which is determined, applied and enforced by top management. It is not important whether the quality management starts according to ISO standards, or by the application of TQM. Important is to understand the activities and continuous improvement of them.

Satisfied customer is the heart of every successful business. Therefore is very important to focus on improving the quality of provided quality.

Review questions

- What is the aim of quality management?
- Do you know which models of quality management are used in public organizations in your country?
- In your opinion, what are the advantages of quality management?

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7 INNOVATIVE ORGANIZATION

7.1 Defining of organizational Structures

An innovative organization engages everyone throughout the organization in the task of developing and implementing new ways to reach the organization’s goals. And everyone indeed includes everyone from the chief executive to frontline workers.

An organizational structure determines the manner and extent to which roles, power, and responsibilities are delegated, controlled, and coordinated, and how information flows between levels of management.

A structure depends entirely on the organization’s objectives and the strategy chosen to achieve them. In a centralized structure, the decision making power is concentrated in the top layer of the management and tight control is exercised over departments and divisions. In a decentralized structure, the decision making power is distributed and the departments and divisions have varying degrees of autonomy. An organizational chart illustrates the organizational structure.

Figure 7.1: Centralized organizational

![Centralized organizational structure diagram]

Figure 7.2: Decentralized organizational

![Decentralized organizational structure diagram]
7.2 Organizational innovation process

Every day the change is more present in the business and organizations. It was good yesterday may not suffice today. In recent years where the market is a ferocious competition and where technology is increasingly sophisticated need to be in the forefront.

Often in the organizations is difficult adapt to changes. The change resistance in the employees, customers and top management has to delete to achieve the success. The key word is innovation.

7.3 The definition of innovation

Probably there are as many definitions of innovation as the number of supposed experts on the field around the world.

“Invention refers to new concepts or products that derive from individual’s ideas or from scientific research. Innovation, on the other hand, is the commercialization of the invention itself.”

Below that are some definitions about innovation from on internet:

“The act of introducing something new” (the American heritage dictionary).

“A new idea, method or device” (Webster online).

“Change that creates a new dimension of performance” (Peter Drucker).

“The introduction of new goods, new methods of production, the opening of new markets, the conquest of new sources of supply and the carrying out of a new organization of any industry” (Joseph Schumpeter).

“Innovation is a new element introduced in the network which changes, even if momentarily, the costs of transactions between at least two actors, elements or nodes, in the network” (Regis Cabral).

“The three stages in the process of innovation: invention, translation and commercialization” (Bruce D. Merrifield).

“The ability to deliver new value to a customer” (Jose Campos).
“Innovation is the way of transforming the resources of an enterprise through the creativity of people into new resources and wealth” (Paul Schumann).

### 7.4 Necessary elements of organizational innovation

To innovate we need have:

- **Confidence**: the employees have to have confidence to share his ideas with the rest of organization. They need to trust that they can commit mistakes without negatives consequences.
- **Management support of leaders**: The management has to show his compromise through a good communication external and internal. Too they have to show compromise being the firsts who innovate and encouraging the creative assuming risks.
- **Budget**: is necessary for implement some ideas highly creative, which are by nature more risky which other kinds of performances. The monetary resource too is necessary for invert on formation and implementation and the use of tools.
- **Tools**: to request, store, evaluate and share employees’ ideas. Other areas where is necessary the use of tools: sessions of brainstorming, mental maps and some other ideas which facilitate creative mind and collaboration.
- **Evaluation methods**: are used to evaluate the generated ideas through others tools.
- **Space**: includes reunions rooms, blackboards, projectors...
- **Recognition**: little gifts or incent which motivate to employees to share creative ideas with the organization.
- **Time**: the employees need to have time to be creative

### 7.5 Change management

Change management is a basic skill in which most leaders and managers need to be competent. There are very few working environments where change management is not important.

Provides some tips on how those principles can be applied.

When leaders or managers are planning to manage change, there are five key principles that need to be kept in mind:

- Different people react differently to change
- Everyone has fundamental needs that have to be met
- Change often involves a loss, and people go through the “loss curve”
- Expectations need to be managed realistically
- Fears have to be dealt with

Here are some tips to apply the above principles when managing change:

- Give people information - be open and honest about the facts, but don’t give overoptimistic speculation. It meet their OPENNESS needs, but in a way that does not set UNREALISTIC EXPECTATIONS.
- For large groups, produce a communication strategy that ensures information is disseminated efficiently and comprehensively to everyone (don’t let the grapevine take over). E.g.: tell everyone at the same time. However, follow this up with individual interviews to produce a personal strategy for dealing with the change. This helps to recognize and deal appropriately with the individual reaction to change.
- Give people choices to make, and be honest about the possible consequences of those choices. I meet their control and inclusion needs
- Give people time, to express their views, and support their decision making, providing coaching, counseling or information as appropriate, to help them through the loss curve
- Where the changes involves a loss, identify what will or might replace that loss - loss is easier to cope with if there is something to replace it. This will help assuage potential fears.
- Where it is possible to do so, give individuals opportunity to express their concerns and provide
reassurances - also to help assuage potential fears.

- Keep observing good management practice, such as making time for informal discussion and feedback (even though the pressure might seem that it is reasonable to let such things slip - during difficult change such practices are even more important).

Where be embarking on a large change programmes, should treat it as a project. That means you apply all the rigors of project management to the change process - producing plans, allocating resources, appointing a steering board and/or project sponsor etc. The five principles following should form part of the project objectives.

**Principle ONE**

Different People React Differently to Change.

Stability → Change

Different people have different preferences for where they like to be on this spectrum. Some people like to be at the stability end of the spectrum - they like things to be the way they have always been. Other people like to be at the change end of the spectrum - they are always looking for something different and new.

Problems arise when the individual’s preferences differ from the situation they find themselves in. That is, if:

- a stability-oriented person finds that circumstances are changing quite rapidly, or
- a change-oriented person finds that everything is the same and there is nothing new
- In these situations, the individuals involved can experience:
  - strong dissatisfaction
  - stress
  - negative attitudes towards individuals with preferences at the other end of the spectrum (e.g.: distrust, dislike)
  - resistance (to change, or to the status quo)
  - intense emotions
  - loss of rational judgment
  - People tend to resist, therefore, approaches on other parts of the spectrum than where they themselves prefer to be.

**Principle TWO**

Everyone has fundamental needs that have to be met.

A famous psychologist called Will Schutz identified three basic needs that people have in interpersonal relations. These basic needs are also of fundamental importance in people’s reaction to change:

- The need for control
- The need for inclusion
- The need for openness

Whilst the need for these can vary between people, in any change process there is always some degree of need for control over one’s environment/destiny, some degree of need to be included in the process of forming the change that is taking place, and some degree of need for managers/leaders to be open with their information.

If a change programme fails to meet the control, inclusion and openness needs of the individuals affected by it then that programme is likely to encounter a range of negative reactions, ranging from ambivalence through resistance to outright opposition.
Principle THREE

Change Often Involves A Loss, And People Go Through The “Loss Curve”.
The relevance of the “loss curve” to a change management programme depends on the nature and extent of the loss. If someone is promoted to a more senior position, the ‘loss’ of the former position is rarely an issue because it has been replaced by something better. But if someone is made redundant with little prospect of getting a new job, there are many losses (income, security, working relationships) that can have a devastating effect.

There are many variations of the “loss curve”. One is known as “Sarah” - that is, the individual experiences (in this order):

- S-hock
- A-nger
- R-ejection
- A-ceptance
- H-ealing

The common factors amongst all “loss curves” are:

- That there can be an initial period where the change does not sink in. For example, feelings may be kept high by the individual convincing themselves that the change is not going to happen.
- That when the loss is realized, the individual hits a deep low. The depth of this ‘low’ is deepened if the loss is sudden/unexpected.
- That the period of adjustment to the new situation can be very uncomfortable and take a long time.
  In the case of bereavement, the period of adjustment can be as long as two years.

Principle FOUR

Expectations need to be managed realistically.
The relationship between expectations and reality is very important. You can see this in customer relations - if a supplier fails to meet expectations then the customer is unhappy; if the supplier exceeds expectations then the customer is happy.

To some extent the same principle applies to staff and change. If their expectations are not met, they are unhappy. If their expectations are exceeded, they are happy.

Sometimes, enforced change (e.g.: redundancies) inevitably involve the failure to meet expectations: there had been an expectation of job security, which has now been taken away.
What leaders/managers have to do, however, is make sure they don’t pour petrol on the fire by making promises that cannot or will not be kept. Expectations have to be set at a realistic level, and then exceeded (e.g.: in terms of the degree of outplacement support that will be provided).

**Principle FIVE**

Fears Have To Be Dealt With.
In times of significant change rational thought goes out of the window. This means that people often fear the worst - in fact, they fear far more than the worst, because their subconscious minds suddenly become illogical and see irrational consequences. E.g.:  
- Our company is reducing staff, which means...
- They will make people redundant, and...
- I’ll be the first to be kicked out, and...
- I’ll have no hope of getting another job, and...
- I won’t be able to pay the mortgage, so...
- I’ll lose the house, so...
- My family won’t have anywhere to live, and...
- My wife won’t be able to cope, so...
- She’ll leave me, and...
- I’ll be so disgraced the children won’t speak to me ever again.

Such fears need to be addressed, by helping people to recognise that most people who are made redundant find a better job with better pay and have a huge lump sum in their pocket! Or, where appropriate, by explaining how the reductions in staff numbers are going to be achieved (by natural wastage or voluntary redundancy).

7.6 **New models organization**

In the last years the view of the structures moves progressively wishes of simplification to complexity. The pressure of competition don’t stop to increase, and the companies try to answer with more precision the customer’s requirements questioning the vertical division of the job and the coordination by hierarchy.

By it, arise new organizational form: inverted organization, network organization, organization in clover and coordination by hierarchy. The inverted organization permit that the people is in direct contact with the customers, the more responsible workstations.

The structures named spider web are appropriate for meet the when knowledge is dispersed among many experts or specialists in an organization. Are created for a particular project and then dissolve. The organization in clover is composed for 3 big areas or leaves: the core, outsourcing and flexible work.

The first is essential capacity of company (the knowledge which the company knows do best). The outsourcing is every work not essential for the organization. Those works will be outsource to enterprise specialist in those areas. The flexible work includes the partial time workers and/or seasonal who will be hired in function necessity of production.

Finally, will be added a fourth leaf which doesn’t generate any cost to company, the work which is transferred to customers, for example, the self-service in a petrol station or in a restaurant.

**ZARA. The Inditex Group.**

The Indited Group is made up of eight different retail sale formats, one including Zara. Indicted operates on a fashion philosophy that boasts, “Creativity and quality design together with a rapid response to market demands”.

In 1963, Amancio Ortega began his awesome career making bathrobes for woman in a little atelier of A Coruña, since this time his progress has been incredible.

Today, Indicted is an international group, is one of the world’s largest fashion retailers, welcoming shoppers at its eight store formats -Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe - boasting 5,221 stores in 78 countries.

His organization structure is integrated with some corporation departments of central service, the eight brands named before and support areas or shared functions for every work units.

The corporative department assumes strategies functions for take economies of scale. In those functions are strategic management, fiscal advice, humans resources or finance policy.

The enterprise chains or work units have independent management team to Indicted, different activities and they act autonomously.

Lastly, in the supports areas or shared functions by every work units, we have to emphasize building department is in charge the location and negotiation for the location of points of sale or logistic department which is responsible the reception, storage and distribution to stores garments produced.

This organizational structure has succeeded in developing a design chain and manufacturing flexible and effective, with the ability to create new products every week, with the process from the design is done until its sale of 20 to 30 days.

In addition, areas of support eliminate the duplication of efforts and misuse of resources.

Finally, we must note that the group Indicted has been able to understand the behavior of demand and apply it to making business decisions based on an appropriate organizational structure to achieve success.

**Review question**

- How would you define an innovative organization?
- What the terms invention and innovation means to you?
- Try to explain the element of innovative organization!
- How do you understand change management?
- The five principles should follow the project of innovative organization. What can you say about them?
- How the innovative organizational structure looks like?

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8 7 - S MODEL

8.1 Introduction

The purpose of science is not to analyze or describe but to make useful models of the world. A model is useful if it allows us to get use out of it. (Edward de Bono)

The 7 –S model has its origins from the classic, ‘The Art Of Japanese Management’, by Richard Pascale-Tanner & Anthony Athos during the early eighties. Over the years it has become a widely accepted tool for understanding how a high performing organization must be managed.

This model is a useful way to look at the many interrelated aspects of a complex organization and it’s a great way to help managers understand their organization and leverage it to maximum efficiency and profitability. It was developed by Tom Peters and Robert Waterman.

According to Dagmar Recklies, the 7-S-Model is better known as McKinsey 7-S. This is because Tom Peters and Robert Waterman, have been consultants at McKinsey & Co at that time. They published their 7-S-Model in their article “Structure Is Not Organization” (1980) and in their books “The Art of Japanese Management” (1981) and “In Search of Excellence” (1982).

The basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful. It is the seven key elements of an organization that are critical to understand its effectiveness. These seven elements are: Strategy, Structure, Systems, Shared Values, Style, Staff, and Skills. During their study Peters and Waterman observed that managers are getting more done if they pay attention with seven S’s instead of just two (the hardware criteria), and real change in large institutions is a function of how management understand and handle the complexities of the 7-S Model. Peters and Waterman also reminded the world of professional managers that soft is hard meaning that it is the software criteria of the model which often are overlooked and which should have the highest focus when embarking on the journey to excellence.

(http://www.iei.liu.se/q/filarkiv/phdcourses/1.119234/InSearchofExcellenceSMJJ_.pdf)

8.2 The 7 elements

The model starts on the premise that an organization is not just structure, but consists of seven elements:

*Figure 8.1: The 7 elements*

Those seven elements are distinguished in so called hard S’s and soft S’s.

The hard elements are feasible and easy to identify. They can be found in strategy statements, corporate plans, organizational charts and other documentations.

The four soft S’s however, are hardly feasible. They are difficult to describe since capabilities, values and elements of corporate culture are continuously developing and changing. They are highly determined by the people at work in the organization. Therefore it is much more difficult to plan or to influence the characteristics of the soft elements. Although the soft factors are below the surface, they can have a great impact of the hard Structures, Strategies and Systems of the organization. Effective companies, however, tend to pay as much attention to these factors as to the hard S’s.

The Hard S’s

Strategy. Actions a company plans in response to or anticipation of changes in its external environment. The route that the organization has chosen for its future growth; a plan an organization formulates to gain a sustainable competitive advantage.

Having established the company’s goals and strategies to achieve the goals, the manager next makes sure that the organizational structure conforms to the company’s strategy. The reason that the company’s organizational structure must follow its strategy is that the organization is responsible for putting strategy into practice. After senior managers have completed the strategy process, including redesign of the organization, they assign tasks to the members of the organization. For the company’s strategy to be carried out effectively, the organizational design should facilitate the assignment and completion of the necessary tasks by managers and employees.

Business strategy continues to be increasingly sophisticated and the speed of competition continues to accelerate. Managers face challenges from technological developments such as electronic commerce and market developments such as the growth of global competition. Managers and entrepreneurs cannot expect to succeed with enthusiasm and guesswork. Effective management depends on knowing how to perform a strategic analysis and then applying the strategy to face market competition and to lead the company’s organization (Spooler, 2004, p. 22).

Structure. Basis for specialization and co-ordination influenced primarily by strategy and by organization size and diversity. The framework in which the activities of the organization’s members are coordinated. The four basic structural forms are the functional form, divisional structure, matrix structure, and network structure.

Organizational structure has also two main aspects: horizontal and vertical. A company’s horizontal structure refers to the scope of the company’s product and service offerings and the divisions of the organizational. A company’s vertical structure refers to the types of functional activities the organization performs and the degree of vertical integration between them (Spulber, 2004, p. 19).

Systems. The formal and informal procedures, including compensation systems, management information systems and capital allocation systems that govern everyday activity and support the strategy and structure.

The Soft S’s

Style. The leadership approach of top management and the organization’s overall operating approach; also the way in which the organization’s employees present themselves to the outside world, to suppliers and customers. The culture of the organization, consisting of two components:

- Organizational Culture: the dominant values and beliefs, and norms, which develop over time and become relatively enduring features of organizational life.
Management Style: more a matter of what managers do than what they say; How do a company’s managers spend their time? What are they focusing attention on? Symbolism – the creation and maintenance (or sometimes deconstruction) of meaning is a fundamental responsibility of managers.

Many organization problems rest in our ways of thinking, because there is a close relationship between the way we think and the way we act, and that many organizational problems are embedded in our thinking. This has very important consequences. First, in encourages us to take ownership of the part we play in shaping the problems that we have to solve.

Second, the appreciation of the close relationship between thoughts and actions can help to create new ways of organizing (Morgan, 1986, p. 335).

Staff. The organization’s human resources; refers to how people are developed, trained, socialized, integrated, motivated, and how their careers are managed.

Not surprisingly, organization theory began its excursion into biology by developing the idea that employees are people with complex needs that must be satisfied if they are to lead full and healthy lives and to perform effectively in the workplace. In retrospect, this hardly appears a profound insight, because from a modern perspective this seems an obvious fact of life. We all know that employees work best when motivated by the tasks they have to perform, and that the process of motivation hinges on allowing people to achieve rewards that satisfy their personal needs.

With the Hawthorne Studies, the whole question of work motivation thus become a burning issue, as did the relations between individuals and groups. A new theory of organization began to emerge, built on the idea that individuals and groups, like biological organisms, operate most effectively only when their needs are satisfied (Morgan, 1986, p. 40-41).

Communication among members of an organization is obviously important to its success. Also important is communication between an organization’s members and its external customers, suppliers, distributors, alliance partners, and a host of other outsider stakeholders.

Formally defined, organizational communication is the specific process through which information moves and is exchanged throughout an organization, and between the organization and its environment. Information flows downward, upward, and laterally. Today, computer technology plays a major role in how such information is shared and utilized (Schermerhorn, Hunt, Osborn, 1998, p. 235).

Skills. The distinctive competencies – what the company does best, ways of expanding or shifting competencies what that reside in the organization. Core competencies required by leaders and other categories of employees in order for the company to effectively execute against the vision, values, goals and strategies.

Shared values. Originally called super ordinate goals; the guiding concepts and principles of the organization - values and aspirations, often unwritten - that go beyond the conventional statements of corporate objectives; the fundamental ideas around which a business is built; the things that influence a group to work together for a common aim.

Without any doubt, the new workplace values change and adaptation. Pressures abound for organizations to experiment continually with new ways of operating in the quest for higher productivity, total quality and service, customer satisfaction, and better quality of working life. And among the many trends and developments, none is more important than attempts to tap the full potential of groups as critical organizational resources. Groups of various forms and types are increasingly prominent as organizations seek the advantages of smaller size, flatter structures, and more flexible operations. Standford University scholar Harold Leavitt tells that high-achieving groups consist of members who are excited and turned on by highly challenging tasks. The members of these “hot groups” are fun-loving and hard-working, whether they operate in the form of committees, task forces, or teams. Such groups thrive in conditions of crisis and competition.
and require special treatment and support. But, they can also generate special high performance results (Schermernhorn, Hunt, Osborn, 1998, p. 112).

Effective organizations achieve a fit between these seven elements. This criterion is the origin of the other name of the model: Diagnostic Model for Organizational Effectiveness.

If one element changes then this will affect all the others. For example, a change in HR-systems like internal career plans and management training will have an impact on organizational culture (management style) and thus will affect structures, processes, and finally characteristic competences of the organization.

In change processes, many organizations focus their efforts on the hard S’s, Strategy, Structure and Systems. They care less for the soft S’s, Skills, Staff, Style and Shared Values. Peters and Waterman in “In Search of Excellence” commented however, that most successful companies work hard at these soft S’s. The soft factors can make or break a successful change process, since new structures and strategies are difficult to build upon inappropriate cultures and values. These problems often come up in the dissatisfying results of spectacular mega-mergers. The lack of success and synergies in such mergers is often based in a clash of completely different cultures, values, and styles, which make it difficult to establish effective common systems and structures.

The 7-S Model is a valuable tool to initiate change processes and to give them direction. A helpful application is to determine the current state of each element and to compare this with the ideal state. Based in this it is possible to develop action plans to achieve the intended state (http://www.themanager.org/models/7S%20Model.htm, http://it4b.icsti.su/1000ventures_e/business_guide/mgmt_inex_7s.html)

The beauty of the 7-S model is that it can be used in a wide variety of situations such as:
- A diagnostic tool for an ineffective organization.
- Improve the performance of a company.
- Guides organizational changes.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.
- Combines rational and hard elements with emotional and soft elements.

In the following paragraphs we will show how companies can look each of the seven points and analyze how they fit into the company. The concepts remain fairly similar, with some minor changes:

Strategy. Refers to the plan or route-map to maintain competitive advantage. What is your plan for the future? How do you intend to achieve the objectives? When was the last time you looked at your business plan? What were the actions you took after looking at it? When was the last time you updated your business plan? How do you deal with competitive pressure? What are the sources of sustainable competitive advantage such as cost, quality, service and technical leadership? What are the key strategic priorities such as improved customer service? How are changes in customer demand dealt with? How do you deliver greater value to customers?

Structure. Refers to the framework in which the activities of the organization’s members are coordinated. A key function of structure is to focus employees’ attention on what needs to get done by defining the work they do and whom they should be working with. How is the organizational structure designed right now? How is the team divided? How do the various departments coordinate activities? How do the team members organize and align themselves? Is decision making and controlling centralized or decentralized? Is this as it should be, given what you’re doing? Where are the lines of communication? If you had to suddenly hire another 6 employees tomorrow, what would it look like? What changes would you have to make? If your customer has a complaint, or if there is some kind of emergency, how are problems escalated? Is there a stated hierarchy and an “in-practice” hierarchy?

Systems. Refers to the day-to-day processes and procedures. Having effective systems helps reduce redundancy and streamlines process. How do you gather business intelligence? Do you have a unified database?
Does the organization have the systems it needs to run your department such as monitoring for customer satisfaction? If you have to put together a report on something, could you do it quickly? What happens if one of your staff leaves; will they take with them a key part of your business intelligence? What are the main systems that run the organization? Where are the controls and how are they monitored and evaluated? What internal rules and processes does the team use to keep on track?

Shared Values (also known as Super ordinate goals) Refers to the guiding principles of the organization. These are the core values of the company and your department. What are your core and stated values? What do you measure and reward? Are they the same thing? How can you make minor changes to bring them in line with each other? What are your stated values supposed to contribute to your business? Do they contribute what you want them to contribute? Do your employees have a shared understanding of why the company exists? Do they share the same company and departmental vision? How do they described the ways in which the company is distinctive? Is the focus on quality, emphasis on people, etc?

Style. Refers to the leadership approach and the organizations overall operating approach. How would you describe your department? How would your employees describe your department? How would your competitors describe your department? How would your customers describe your department? How would your vendors describe your department? If all five would say the same thing then you’re on the right track; if they say different things then it could indicate a potential problem. Is this same style and culture going to carry you through the next few years? What will have to change for you to grow? How participative is your management and leadership style? How effective is your leadership? How good are you at making decisions? Where do you focus most of your time and attention? Do your employees tend to be competitive or cooperative? Are there real teams functioning within the organization, or are they just nominal groups?

Staff. Refers to the staff levels and how people are hired, developed, trained, socialized, integrated, and ultimately how their careers are managed. Are you staffed to serve customers adequately? Will the addition or deletion of one or two staff members change anything? How do you train and mentor employees? Is your training methods effective? Are your staff members trained to do their jobs? Can you give them any other skills or resources to do their job better? What’s holding them back from helping you grow your business? Are they “bought in” to seeing your business develop? What positions or specializations are represented within the team? What positions need to be filled? Are there gaps in required competencies?

Skills. Refers to the distinctive competencies of people within the organization. What skills have you been hiring for? What skills do you need? What skills will you need in 1 or 2 years from now? Does someone in your organization have those skills and are you grooming them for an important role in the next 1 or 2 years? What skills will you need to possess in two years that are different than the skills you possess today? What are the strongest skills represented within the team? Are there any skills gaps? What is the team known for doing well? Do the current employees have the ability to do the job? How are skills monitored and assessed? (http://www.masterclassmanagement.com/ManagementTraining-The7SModel.html)

8.3 Changes in Organizations

This may will be remembered as the decade that fundamentally changed the way people work. We have experienced the stresses of downsizing and restructuring; we have gained sensitivity to the peaks and valleys of changing economic times; and we have witnessed the advent of the Internet with its impact on every day life.

Truly progressive organizations, however, are doing much more than simply reducing that scale of operations, cutting employees, and adding technology in the quest for productivity. They are changing the very essence of the way things are done. Process reengineering involves rethinking and radically redesigning organizational processes to promote innovation and improve critical performance measures such as cost, quality, service and speed. To meet these standards, workers in all industries are being asked to forget how things were done in the past and to focus only on how they can be done better in the future (Schermherhorn, Hunt, Osborn, 1998, p. 3).
8.4 Pros and cons of the 7-S Model

The model is easy to apply as an analytical framework. Since it combines both rational and hard elements with emotional and soft elements, the analysis is broad enough to encompass the key characteristics of an organization.

The model can be used to assess the impact of strategic change on the client organization through cross-analysis. The strengths and weaknesses of an organization can be identified by considering the links between each of the Ss. No S is a strength or a weakness in itself, but is a relative measure. Each factor’s degree of support for the other Ss is relevant. A S that harmonizes with the other Ss is considered a strength, and a dissonance a weakness.

The model overcame the limited view of Chandler’s “Structure follows Strategy”. Peters saw excellence as a cultural issue where ambiguity and paradox are required to bind people’s need for conformity with their desire to be regarded as individuals. He went even further by pleading that a strong reliance on rational decision making is not only wrong, but dangerous.

The 7 S model was used as a framework to research excellent companies. The result was Peters and Waterman’s management hit, ‘In Search of Excellence’ in which 62 excellent companies showed the following common attributes:

- a bias for action
- close to the customer
- autonomy and entrepreneurship
- productivity through people
- hands-on, value driven leadership
- stick to the knitting
- simple form, lean staff
- simultaneous tight-loose properties.

The empirical validity of the model became doubtful when many of the companies identified as excellent did not survive in the 1990s.

The model can help guide organizational change. Managers must act on all Ss in parallel, and understand that the factors are interrelated. This interconnectivity creates a dynamic system where one change requires the system to adapt to a new equilibrium. The human brain finds it notoriously difficult to predict the effects of changes in complex systems. The model has limited use as a real-time, numerical maintenance and monitoring tool.

The authors do not view the organization as a political arena. The authors viewed that conflicts between individuals and departments had to be avoided by adopting strong and uniting shared values.

8.5 Conclusion

The modern world is one of organizations. Without organizations our modern societies would cease to function. For instance what kind of economy would we have without financial institutions? We would need to revert to older forms of social organization based on traditions. Organizations are so pervasive and so common place that it is sometimes easy to forget that each may be viewed as an entity with a specific contribution and specific goals.

The 7-S model turned out to be an excellent tool for judging an organization’s ability to implement a given strategy. The model showed that thinking about strategy implementation was more complex than the relationship between strategy and structure as Chandler had suggested.
To be effective, an organization must have a high degree of internal alignment among all seven Ss. Each S must be consistent with the other factors for them to reinforce one another. With the exception of the skills factor, all Ss are interrelated and a change in one affects all others.

Certain key factors such as staff, strategy, structure and systems can be changed in the short term. The three remaining factors as a style, skills and shared values are delayed factors that can only be affected long term. Skills are both hard and soft. Peters pointed out that true competitive advantage originates from these soft factors.

The model can be used as both a static checklist for analysis purposes and a tool to assess potential conflicts when a strategic program is implemented.

**Review questions**

1. What is the main significance or usefulness of 7 – S model in organizations?
2. List the seven components of this Model and divided them to Hard and Soft S elements!
3. Try to define in which situations can be used 7 – S Model!

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9 ORGANIZATIONAL STRUCTURES

9.1 Introduction

The effectiveness of every human deliberate activity largely depends upon an adequate organization; for organization is a purposeful human activity coordinating all the-necessary production factors into a harmonious whole, directing the operation of the whole towards the realizing of the objectives-set. The more successfully the processes of acquiring material goods are organized, the better results can be expected.

During the last decade quite a lot of discussions have taken place, allover the world, about organization, and a lot, too, is being expected from a better organization. Yet opinions still considerably differ with regard to a most appropriate organization. The characteristics feature of all the deliberations relating to a more appropriate organization, however, is the common conviction that a non-hierarchical organization structure is the most appropriate one for the contemporary conditions of operating. As the theory so far has not developed such a structure, this presents its basic future task. When speaking about the non-hierarchical organization structure, we do not mean a structure having no influential levels. Such a structure would be an impossible one. The levels of influence within an organization forming their common influence system should be interlinked mutually and their operation should be coordinated. The field of each influence level within which moves the rate of its dependence, however, is limited by the extremity of the unlimited rate of independence and by a total link with a whole. The determination of the influence according to the influence levels, of the so called non-hierarchical organization structure varies between the two extremes. In any case it shall be a different one from that within the hierarchical structure of the vertical power distribution.

The developing of a generally applicable organization structure for all the forms of the human activity, however, would mean looking for a magic formula. In developing the organization structure we should start from the assumption that the type of an organization structure always reflects a certain business strategy, that business relations determine the choice of an appropriate organization structure and that also the objectives and the decisions taken determine the choice and an effective use of a certain organization structure for any form of human work. The influence exerted on, and the connection of, the business strategy, objectives and decisions in the different conditions of operating, related to the organization structure, will be dealt with in the continuation of this paper.

9.2 Strategy Definition

Through a system approach to deliberation we can deal with strategy in connection with philosophy, policies and structure. Philosophy of organization is an ideative background of policy, a deliberation upon the general questions significant of the existence and development of the organization. This deliberation, however, depends upon the views and values held by those making decisions within the organization. By a view we mean the way of thinking, and by a value the quality of the thing desired (op.cit., p. 73), for instance, power, skill, justice, reverence, freedom, democracy, and others. Views and values lead to the cognition of objectives (ibid.). The objectives lead to the central concept of the organization that can be expressed as a vision of the organization and as a concept of the operating. And the central concept is already the contents of the organization’s policy. By the organization’s policy we mean the activity through which we look for, and determine, the basic ends of an activity and the directing of the activity towards the ends. (op.cit., p. 61) The directing towards the ends is achieved through strategy, structure and rules of an end-orientated behavior. The rules of an end-orientated behavior are contained in the basic principles of operating and in the use of the attitudes towards people and towards science. (op.cit., pp. 73).

The notion of strategy has been taken from the military terminology. The notion of tactics, too, has been transferred from the theory of games to the business sphere. In the military terminology, strategy generally means an engagement of the armed forces on the entire battleground to attain the war objective determined by the policy, and also as operations taking place in the significant parts of the battleground. (op.cit., pp.151) And tactics means the concretization of a strategy. (ibid.) The notion of strategy has, in business life, a broader and a narrower meaning. (op.cit.,pp. 152) Strategy in the broader meaning comprises also the
determining of the basic objectives and is near to the definition of policy of the organization. In its narrower meaning it means the choice of the more defined narrower objectives and the allocation of resources for the achievement of these objectives. The allocation of resources for the achievement of the objectives means a purposeful allotment of the available material, financial and personnel resources in relation to various organizational bases, for instance, in relation to organizational units, groups of workplaces and workplaces. Yet the allocation of the resources is possible only after establishing a purposeful arrangement of the operations of a process. And the allocating of resources and the determining of the consecutive arrangement of the operations of a process means organizing, the result of which is a determined organization structure. And the task of the structure is the realization of the strategy.

The connection between the strategy and structure is shown here, drawing our attention to the fact, too, that the structure is derived from the strategy. The structures are formed through the organizing, and the organization’s strategy is carried out through them. In our organizational writings most authors write about the strategic, tactical and operational decisions. By decision-making we mean the choice of the best possibility out of a number of the available ones. The strategic decisions refer to the directions of the business policy and to the purpose of the operating strategic decisions are concretized through tactical decisions. And the operational decisions are necessary for the carrying out of the tactical decisions. Thus the decisions present a central point in the policy, in its concretization and in its carrying out. And adequate organization structures are necessary for realizing the decisions.

9.3 Structure Definition

We have already mentioned in the introduction that structure is a result of the organizing and that it is closely connected with the strategy. In spite of being the notion of structure fairly known, there is no uniform definition of structure in the organization literature. Let us quote some of them:

“Structures are the various component parts of the elements, jointly forming an organic whole and being interdependent (op.cit., p. 159):

- A structure is shaped by the combination among the factors forming the organization (Peric, 1973).
- The structure indicates the scheme of the organization, the described roles, regulations and other provisions (Možina, 1972, p. 18.) We could mention another series of the definitions given by the various authors. Let us finish the deliberations over the notion of organization structure with the statement that the organization structure is the frame of the purposeful arrangement of the organizational capabilities in relation to the different organizational bases. The organizational capabilities present all the personnel, material, financial, and other resources available within the organization, ensuring the realization of the business objectives.
- An organization’s structure must be shaped by its objectives.
- The organizational structure is how an organization constructs and operates. It is a frame of arrangements. It is a means to achieve the organization’s aim. It deals with the questions like who should be responsible to whom and how to make the decisions and how to finish a task. The organizational structure shows the organizations’ division of labor, integration and coordination of certain tasks.
- The organization structure is a means of realizing the objectives. As the objectives change during the time, the organization structure have to be adapted to the objectives changed. In further discussion we are going to deal with organizational structure in following manner: The organization structure is shaped by the tasks, holders of tasks and by their mutual relationships; it is shown by the organization scheme.

The structure of the organization having three components. These are complexity, formalization and centralization. Another component to the three previous ones, called integration. Banner and Gagné also use the term differentiation as a synonym for complexity.

“Complexity believes the extent of differentiation within the organization. E.g.: degree of specialization or division of labor, number of levels in the hierarchy of the organization, and extent of geographical dispersion of units of the organization” (Robbins, 1983, p. 6). Expertise refers to the role-specific behavior that focuses on certain duties and activities for which someone needs training. Division of labor usually refers to the practice of deploy-
ing an extensive work on tasks smaller, less complex and routine, which can be performed by non-specialists. Complexity has three elements, which are: (1) horizontal differentiation - the degree of horizontal separation between units, (2) vertical differentiation - the depth of organizational hierarchy, (3) Dispersion spatial - the degree of geographical dispersion of facilities and staff. The Formalization is a measure of standardization. Regarding the aspect of the discretion of individuals, states that Since the discretion of the individual in his work is inversely related to the amount of programming of behavior by the organization, the greater the standardization lower the contribution of the employee on their work. The standardization removes the need for employees to consider alternatives.

Centralization refers to the concentration of decision-making in a specific point of the organization.” Centralization may be described as the degree to which the formal authority to make discretionary choices is concentrated in an individual, unit or level (usually high in the organization), allowing then to employees (usually low in the organization) Minimum ‘input’ in the job. “High centralization is said when there is a lot of decision-making power is concentrated at a single point. Low centralization (decentralization) is the opposite.

Integration can be defined as the quality of the state of collaboration that exists between departments to which a unit is required in the effort required by the demands of the environment. Integration is the structural feature that ensures the proper communication, coordination and control within the organization, allowing different departments and / or people speak the same way and work together for the same purpose.

The different amounts of flexibility, formalization, centralization and integration in an organization will determine the manner in which the organization is structured.

9.4 The six basic elements of organizational structure

There are six basic elements of organizational structure: specialization of work, departmentalization, standardization, span of control, Centralization and decentralization, chain of command. I will talk about each element in detail below.

Specialization of work
This element concerns about the division of work. It means how specific the work of each worker can be. There are two types of specialization, one is wide specialization and the other is narrow specialization. If the tasks are few and very specific, then this is the narrow specialization. If there are many tasks and the tasks are very flexible, then this is the wide specialization.

Departmentalization
Departmentalization means how to combine the division of work reasonably. We can find five types of departmentalization.

(1) Functional departmentalization: The groups who has the same function are put together to form a department.

The following picture is an example of functional departmentalization:

*Figure 9.1: Functional departmentalization*
(2) **Product Departmentalization.** The departments are formed by product line. Each manager is responsible of an area of one project within the organization depending of his/her specialization. The following picture is an example of product departmentalization:

*Figure 9.2: Product departmentalization*

![Diagram of product departmentalization](image)

**Geographical Departmentalization.** The departments are formed on the basis of territory or geography. The following picture is an example of geographical departmentalization:

*Figure 9.3: Geographical departmentalization*

![Diagram of geographical departmentalization](image)

**Process Departmentalization.** The departments form on the basis of the process of the productivity or customer flow. The following picture is an example of process departmentalization:

*Figure 9.4: Process departmentalization*

![Diagram of process departmentalization](image)

**Customer Departmentalization.** The departments form according to the types of customers. The following picture is an example of customer departmentalization:

*Figure 9.5: Customer departmentalization*

![Diagram of customer departmentalization](image)
**Standardization**

Standardization means the degree of standardization of the work. If an organization has a high degree of standardization, it means there will be a clear statement of work, rules and regulations, detailed provisions on the work process. The higher the degree of standardization is, the less freedom a worker has to determine which work to do.

**Span of control**

It determines the number of levels and managers an organization has and determines the number of employees a manager can efficiently and effectively manage.

**Centralization and Decentralization**

**Centralization**: The power of decision making is all in the authority’s hands. The high lever managers seldom listen to the grassroots level’s opinion.

**Decentralization**: The grassroots level can highly participate in the decision making process or they can decide something by themselves.
Table 9.1: Comparison between centralization and decentralization

<table>
<thead>
<tr>
<th>More Centralization</th>
<th>More Decentralization</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Environment is stable</td>
<td>• Environment is complex, uncertain.</td>
</tr>
<tr>
<td>• Lower-level managers are not as capable or experienced at making decisions as upper-level managers.</td>
<td>• Lower-level managers are capable and experienced at making decisions.</td>
</tr>
<tr>
<td>• Lower-level managers do not want to have say in decisions</td>
<td>• Lower-level managers want a voice in decisions.</td>
</tr>
<tr>
<td>• Decisions are significant.</td>
<td>• Decisions are relatively minor.</td>
</tr>
<tr>
<td>• Organization is facing a crisis or the risk of company failure.</td>
<td>• Corporate culture is open to allowing managers to have a say in what happens.</td>
</tr>
<tr>
<td>• Company is large.</td>
<td>• Company is geographically dispersed.</td>
</tr>
<tr>
<td>• Effective implementation of company strategies depends on managers retaining say over what happens.</td>
<td>• Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions</td>
</tr>
</tbody>
</table>

Source: http://www.emaytrix.com/mgmt307/section2.php

Chain of command
It is defined as a continuous line of authority that extends from upper organizational levels to the lowest levels and clarifies who should be responsible for whom and to whom.

9.5 Kinds of the Organization structures

So far the organization theory has developed various organization structures. All the known to us can be, roughly, classed into the following groups:

a/ hierarchical,
b/ functional,
c/ staff-line,
d/ combined, and
e/ interaction ones.

Each organization structure corresponds to the carrying out a determined business strategy. It is difficult to talk about a good or bad organization structure, for each structure has certain advantages and also deficiencies. Various organization structures correspond to the various strategies. An efficient use of a certain organization structure is also influenced by the conditions of operating and by the kind of the decisions taken. An efficient realizing of the various strategies, objectives and decisions in the differing conditions of operating requires a simultaneous use of a number of organization structures, to a determined extent, within each organization.

9.5.1 Characteristic Features of Hierarchical Organization structure

The fundamental characteristic feature of the hierarchical organization structure is that directions and orders go from top downwards through all the levels of the hierarchy. Those not performing leading tasks are subordinate to executives standing hierarchically by one grade up. Following an equal principle, the subordination has been carried out up to the top of the organizational hierarchy. This means that in the hierarchical organization structure all, excepting the highest leading person, are subordinate one to another. The difference in the subordination lies in the fact that most people are the more times subordinate the lower is their managerial position. The hierarchical organization structure is the oldest organization structure. In the recent organization literature, however, it has been strongly criticized. Numerous organization theoreticians,
and in particular those from the field of organizational behavior, think that the hierarchical organization structure is no more workable in the modern organization. But if we accept the thesis that the workability of an organization structure depends upon the conditions of operating and upon the kind of the decisions, then we must not consider the hierarchical organization structure a completely unworkable one. Within the contemporary organizations, too, there are conditions and decisions taken, for which, in relation to the others, the hierarchical organization structure is a more appropriate one. The well known American behaviorist, Argyris, quotes the conditions of operating in which the hierarchical organization structure is, as compared with the others, more efficient, and that (Argyris, Ch.: Integrating the Individual and the Organization. John Wiley, New York, 1964, pp. 198 to 200):

a/ in the cases when decisions have to be made quickly, being dictated by the exceptional conditions of operating. In such conditions the subordinate their needs for decision-making to the management with the intention of solving, as soon as possible, the problems making possible a normal operating;

b/ if the decisions are of a routine nature, e.g. the operational production decision, work scheduling, safety at work, priority products, and others. It is characteristic of such decisions that they do not require a creative effort. People with a high degree of creativeness even want to avoid such decisions and are not affected is somebody else takes care for such decisions;

c/ in the cases of the non-routine decisions if they do not affect people’s prestige, their material interests or other advantages connected with their position at their posts;

d/ if decisions are related to a group of people whose work is closely interlinked as to space and time, e.g. an assembly line. In such circumstances it is necessary for the heads to supervise the production process and take decisions by themselves on the matters ensuring the realization of the production objectives;

e/ as compared with the others the hierarchical organization structure is also a more efficient one in such circumstances when the subordinate do not seek psychological satisfaction, when they are apathetic towards the organization, when they hate the organization and when they generally oppose its objectives.

The use of the hierarchical organization structure is appropriate only in such circumstances where we expect that the subordinate will not be affected and that an authoritative decision-making will not exercise a negative influence upon the confidence of the subordinate. But such circumstances are in any way limited to the decisions and to the specific conditions of operating.

The hierarchical organization structure or its single elements are used to a certain extent in the determined conditions of operating in the contemporary organizations, too. We must point out, however, that the hierarchical organization structure as well as its single elements are gaining in practice of management and in the organization theory another significance.

*Figure 9.6: Hierarchical organizational structure*
9.5.2 Characteristic Features of Functional Organization Structure

The characteristic feature of the functional organization structure is in the fact that the work of the heads is divided in the way that each man, from the highest to the lowest organization level, performs the, least possible number of functions. If this principle is practicable, then the work of each head shall be limited to the performing of only one, the main activity. A most explicit external characteristic feature of the functional organization structure is also that every day each worker receives orders and assistance immediately from eight different functional heads. There from is derived also the denomination of this organization structure. Some functional heads get into contact with workers only once or twice a day, some, however, spend most of their working day with the workers. For this reason the number of the individual specialized heads differs. Those functional heads spending more of their working time with the workers during one working day, are in charge of smaller working groups. Within the functional organization structure every worker of the works belongs to eight working groups led by the individual functional heads.

According to Taylor’s concept of the functional organization structure all the workers of every workshop are simultaneously subordinate to four functional heads, namely: to the working group head, to the production speed head, to the work supervision head and to the maintenance and repairing equipment head. (Taylor, F.W.: Naucno upravljanje (Scientific Management). Rad, Belgrade, 1967, pp. 86.) At the same time, each worker in the workshop is also subordinate to the four administrative heads organizationally shaping the planning department of each workshop. According to Taylor they are as follows: the expert in the sequence and course of work, the instruction card specialist, the expert in working time and costs, and the disciplinary head of the workshop (Taylor, F., W.:op. cit., p. 87.).

The work being done, within the hierarchical organization structure by one person, is divided, within the functional organization structure, among eight persons. On account of a small number of functions, it is possible to qualify by training the specialized heads in a relatively short time to achieve a high production. A consequent use of the functional organization structure requires a considerably lower qualification of staff in comparison with the hierarchical organization structure.

The functional organization structure is used to a certain extent within every well-organized organization. In every organization there are a certain number of the specialists for technical and for other specialized jobs being in a direct contact with the workers, according to the determined aspects of their jobs.

A fundamental differentiating characteristic feature of the functional organization structure is also that directions, orders and various decisions are not being transferred those performing the tasks on hierarchical levels, but that the specialized experts exert a direct influence upon those carrying out the tasks at their workplaces. Thus the pyramid of management is evidently shortened and the way of decision-making is a shorter one. The specialized heads within the functional organization structure have a considerably greater competence as they communicate with the workers without intermediaries.

In comparison with the hierarchical organization structure we can say that the functional organization structure is a more efficient one. Notwithstanding the advantages, however, it has a series of deficiencies, such as:

a/ the overlapping of influences of the leading experts at the posts of execution of the job;

b/ a non-rational use of the expert and managing staff and
c/ the monotony in the work of the specialized and executive workers.

The functional organization structure is seldom used in its original concept. Most frequently there are used only some of its elements in combination with other organization structures. It is most adequate, however, for the use in the following cases:

- at a high level of mechanization and automation of the production process,
- in the field of the development and research work and
- in carrying out independent projects.

As compared with the hierarchical organization structure, the functional one is more appropriate to organizing the work in certain self-managing conditions of operating. The running and management of production
should be based upon the principle of individual responsibility. Such a responsibility, however, cannot be conceived of without taking into consideration an exact division of labor, making possible a clear determining and delimiting of the competence and responsibility of each individual within the associated labor. Within the functional organization structure the individual responsibility is theoretically unlimited; but it is strictly linked with the function carried out by the individual.

Figure 9.7: Functional organizational structure

9.5.3 Staff-line Organization Structure

The staff-line organization structure is a combination of the hierarchical and of the functional organization structures. It was developed by the American classic writer Emerson in the way that he combined and coordinated some elements of the hierarchical and of the functional organization structure into a new combination. Knowing that the leading workers are not in a position to cope with the tasks required, Emerson added to the more significant jobs within the hierarchical organization structure special services or jobs to be occupied by the experts in the individual fields of work. These experts were not leading workers but only consultants, preparers of the schemes and methods of work, and analysts. They were given the role of the staff or consulting organs within the organization. Thus the staff-line organization structure gained an addition and a new denomination. In its concept the new structure has still remained a hierarchical one, which has been, however, in comparison with the purely hierarchical and functional organization structures, a more effective combination.

The staff-line organization structure differs, in comparison of the hierarchical and functional ones, in determining the relationship between the individual operational functions within the organization. It is shaped either according to the functional or to the personnel concept. Using the first concept, the operational functions are divided into hierarchical and into staff ones, and according to the second concept there is determined the hierarchical or the staff nature of the individual staff within the organization.

The staff-line organization structure is the most used structure in the developed countries. This applies also to our organizational practice. In the organization theory, and in practice as well, it had and still has in a number of instances, some sacred character. After the year 1960, however, we can trace papers (Fish, G.: Staff-Line is Obsolete. Harvard Business Review, No.5/1961) about a non-functionality of the staff-line
organization structure. Some among our authors, too, have already drawn attention to the inappropriateness of the staff-line organization structure in the shaping of the contemporary organization of associated labor.

The staff-line organization structure is gradually losing its original significance. The development of the organizations and the complexity of operating are causing its ineffectiveness. Within the contemporary organizations the information systems and the up-to-date means for a quick and effective processing of a number of information are substituting for staff services and for staff experts. The effective communication and information systems are substituting for the staff specialists within the contemporary organizations.

A consequent performance of the staff-line concept of organization gives rise also to a number of problems in the carrying out of the various operational functions. The development of the production and the complexity of operating are gradually changing the staff character of a lot of the functions. The financial function is a typical instance of a staff function within the traditional staff-line organization. Within the contemporary and large organizations, however, the financial functions are becoming the nerve system of these organizations having an insight into and control over the business happenings as a whole. There has been also developed a special concept of the so-called financial management.

Notwithstanding the deficiencies of the staff-line organization structure, we can establish that this structure is, in comparison with the others, a more appropriate one to carry out a certain work strategy, to adopt and perform certain decisions and objectives in the determined conditions of operating. The staff-line organization structure can be efficiently used under the circumstances as follows:

a/ within small organizations with a low business dynamics,
b/ within organizations with non-developed communications,
c/ within organizations with a low level of the professional qualification of the personnel,
d/ for introducing the specialized personnel into the work if on account of their too small a qualification or work skill they cannot be allowed an independent decision-making, and
e/ at the stage of building up the organization structure and determining the organization forms.

In a great number of our organizations of associated labor, too, the staff-line organization structure has a sacred character, notwithstanding the fact that its efficient use is considerably limited. A gradual changing of the staff-line organization structure and its replacing with more appropriate ones is one among the important tasks of the organizers of a more efficient organizing of associated labor.

Figure 9.8: Staff-line organizational structure

9.5.4 Combined Organization Structures

The combined organization structures are the result of the neo-classical research made into organization science. The most significant structures of this kind are the project organization structure and the matrix one.
The project organization structure is used for carrying out such projects as require a high level of the coordinating of a great number of the individual activities that cannot be performed by the usual functional organization structure.

The organizational concept of the project organization is a new means for a more efficient organizational control of big and demanding projects. This concept combines the institutionalized joint responsibility for the entire duration of the projects.

The project organization is shaped with regard to the individual projects with the aim at carrying out a certain, project within the time foreseen, with the costs fixed and in compliance with the requirements of the clients. Within the project organization the people from various departments are assigned the tasks required for carrying out of the projects. All the persons cooperating in the carrying out of the projects are appointed to the projects head being entirely responsible for the carrying out of the projects. As soon as the project has been completed, these people are relieved from their tasks and attached to their matrix departments or appointed to other projects.

The basic differentiating characteristic features of the project organization structures are, first of all, the following: (Gohre, H.: Introduction of Project Management Methods A Project in Itself. Internet 72, Stockholm, May 15 - 19, 1972, Congress Book I, pp. 147):

a/ orientation to the tasks (the achievement of the project objectives),
b/ system orientation (tackling the project as a whole), c/ time distribution orientation (an independent distribution of the individual activities),
d/ costs responsibility (determining the costs limits according to activities, estimating and inspecting the costs incurred), e/ dynamical character (care over a gradual performance of the project activities within the framework of the final time limits set, and the like),
f/ organization with a limited duration (up to the end of the duration of the project),
g/ interdisciplinary team work within the project organization, as well as between the project organization and the executive organization units,
h/ a peculiar character of the situation within the organization (a special status of the project organization within the existing functional structure),
i/ a dual character of the project organization as a contracting party in relation to the client, and as a contracting party in relation to the functional departments,
j/ the service nature of the activities to be performed by the individuals or the departments for the project organization.

The introduction of the project organization can be styled as an innovation process meaning the disintegration of the hierarchical organization structure and of the authoritative management. A successful introducing of the project organization means the creation of the organization structures under a democratic management, linked with the contemporary behavioral approaches.

Regarding its concept, the project organization is a dynamical organization structure. The classic organization structures, however, are, without regard to their variations, primarily static ones. Their objective is to maintain a certain structure of power and the system of regulations.

The project organization structure has several variations. The most practiced, however, are the project organization structure of the so-called project coordinators and the project organization structure integrated into the existing functional organization structure.

In comparison with the others, the project organization structure is more appropriate in the following cases:

a/ for the individual production,
b/ if the value of the project is a big one,
c/ if some aspects of the project are critical (terms of delivery, costs, quality, etc.), and
d/ if so required by the client.
The extensive and complicated tasks to be solved by the contemporary production, can be more efficiently solved by the project organization concept. Such tasks can be performed in a more efficient way if the project organization and its introduction is conceived of as a successive, learning process that should be performed gradually and continually adapted to the changing conditions of the operations.

The matrix organization structure is a peculiar adaptation of the project organization. It is appropriate for the organizations simultaneously carrying out a great number of smaller projects. If organizations are carrying out a great number of smaller projects the realization of which requires a relatively short time, people are being quickly transferred from one project to the other. In order to avoid it, the organizations use a modified project organization, known as the matrix (Richard, M.D. and Greenlay, P.S.: Management Decision-Making, Homewood, Illinois 1966, p. 231.) organization structure. In the matrix organization structure people remain subordinate to the heads of their matrix departments to which they belong in relation to their functionality, in spite of their working at different projects.

The individuals working at the determined project receive their directions from, and report on the results of their work to, their project head. For a possible decision-making concerning the personal income and promotion or for determining a disciplinary penalty remains in charge the head of the matrix department. Thus the individuals are subordinate to two heads, which is in contrast with the classical principle of management concerning the unity of command and the unity of management, taking it for granted that the subordinate may receive directions only from, and report on the result of their work only to, one head. The functional and the project heads otherwise cooperate in directing and estimating the efforts made by the individuals, but if there occur disagreements the two heads, it is more appropriate to the subordinate to take into consideration the directions given by his permanent head, for he is in position to exert influence upon his future job and promotion.

*Figure 9.9: Project organizational structure*

In the matrix organization we cannot any more speak about a hierarchical structure of power and about a stabilized competence and responsibility of the individuals. An equivalent and dynamical cooperation between the project organization and the existing organization units within the organization has been substituted for this power structure. The matrix organization structure ensures an adjustment between the project dynamics and the required stability of the specialized staff. The traditional differentiation of the line and the staff functions is no more necessary.

The matrix organization structure presents a peculiar matrix among the different projects and among the different holders of the business functions within the organization. It can be illustrated by the different two or three-dimensional matrices.

In the search for improved management in business, is in the 60 and 70, the form of matrix structure, resulting from the merge of the structures Functional and projects, in which both functional as administrator to the project exercising authority over the activities of the organization. In the perception of Morgan, the matrix
organization, based on the configuration of adhocracy, presented as advantage, the breakdown of barriers between specialists and interdepartmental and promotes the flexibility and adaptability of organizations that operate in turbulent environments.

The adoption of the matrix structure contributes to the success contemporary organizations that require agility, sharing optimization of knowledge and individual skills of its professionals to meet the demands of the market increasingly competitive and unstable.

*Figure 9.10: Matrix Organizational structure*

The matrix structure in the vertical axis represents the functional responsibility and the horizontal, the responsibility of the project, differentiating their functions according to their objectives, showing reduced levels of hierarchy in each function and authority decentralized. Employees relate to their functional managers and, this should work teams which are subordinate to managers of projects.

This type of configuration that contributes to the work teams is transform the primary tool for communication and integration of the organization since controlling the vertical is the lowest possible, while the horizontal predominates in the decision making.

The horizontal view of business is a way to identify and improve the functional interfaces, which are the points where the work is being done is transferred from one organizational unit to the next (Rummler, Bracho, 1990 apud Gonçalves, 2000).

However, the adoption of the matrix structure may generate internal conflicts and tensions between staff and managers from the ambiguity generated by the dual leadership, especially in highly bureaucratic organizations, in which the chains of command and hierarchy are well defined. Furthermore, may present as an obstacle in balance between the interests of the project with the function and generate greater difficulty.

9.5.5 Characteristic Features of Interaction Organization structures

The interaction organization structures are the result of the recent organization research. Among these structures the two most significant ones are the functional team organization structure and Linker’s organization structure, the system 4. In the functional team concept of the organization the organization structure is shaped by the functions that are and that must be equal in their position within the organization. Such a structure ensures a greater efficiency in the operating and a more appropriate delimitation of competence and of responsibility. The functional team structure differs in regard to the others also in the conception of
power, influence and responsibility of the individual functions. This structure: makes possible also a purposeful distribution of the operational functions in relation to the organization units and makes possible a greater efficiency in the operating as a whole. An equal and equivalent position of all the functions is a basic characteristic feature of the functional team organization structure.

According to its founder, G. Fish, the basic principles of the functional team organization structure are as follows (Brekic, J.: op.cit., p. 424.):

- a/ a logical distribution of competence among the functions,
- b/ a joint determining and carrying out out of the tasks having an equal significance, value, everyone in the team has an equal authority,
- c/ to distribute staff for functions considering their specializations,
- d/ to practice the mutual cooperation within minimum liabilities in relation to the formal organ,
- e/ to remove the contrarieties to achieve an economic equilibrium among the functions,
- f/ to carry out a maximum coordination through the simplest hierarchy in all the functions,
- g/ to advise the superior organs only about major and important differences, to take decisions thereon,
- i/ to encourage team work for an optimum achieving of the objectives of the organization as a whole.

In the functional team organization structure the differentiation of the functions in the line and staff ones is no more necessary. All the functions have an equal significance and authority. All the employed make efforts to work and to coordinate their work as a team with as little hierarchical levels as possible. In the functional team organization structure, each function has its part and authority in carrying out its tasks. Numerous practical cases confirm the advantages offered by the functional team organization structure in comparison with the staff-line one. Fish says: “If the staff line concept of work has proved inefficient, and that always when the enterprise got into troubles, then why should we use such an organization concept as the one by which the enterprise should struggle every day for its income and existence.”

From various papers it can be seen that the functional team organization structure started asserting itself in such organizations as had got into troubles. In such circumstances the organizations substituted the functional team organization structure for the staff-line ones thereby increasing the efficiency of their operations.

The functional team organization structure is shaped by the working teams, mutually closely linked and efficient.

The American organization psychologist and sociologist, R. Likert, has developed four systems of management. He classed different management characteristic features into four groups, denominated the systems 1, 2, 3, and 4. The individual systems differ as to the participation of the subordinate in the decision-making. For the purposes of this paper we are interested only in the system 4. According to Likert, the basic principles of the system 4 are as follows:

- the principle of supporting relationships,
- the principle of operating of the organization and of the group decision-making,
- the principle of a high performance of the objectives.

The system 4 is a participative system of the efficiently working of working groups. In this system the management fully trusts and believes its subordinate. Supporting relationships ensure the use of human capabilities, in a most appropriate manner. Important decisions are made at all organizational levels. Communicating has been many-sided developed along the vertical line of the formal organization as well as along the horizontal one among all the individuals and organizational units interested in it. The lower management levels as well as the direct workers are highly motivated for they are being taken into consideration and are cooperating in all the decisions affecting their lives and work. An all-round cooperation has been developed between the superior and the subordinate, with a high level of mutual trust. The formal and informal organization are one and the same thing, forming a strong whole promoting the achieving of the organizational objectives. Within such an organization all the social forces support the efforts directed towards the achievement of high objectives.
The organization structure of the system 4 is a system of the closely linked and mutually overlapping working groups where each working group is joined, through an intermediary link, to a joint organization. This structure consists of working groups, mutually linked one to another.

The organization structure of the system 4 is an interaction organization structure, adapted to a democratic decision-making. The team solving of the organizational problems, accompanied by the supporting relationships, presents a basis of an efficient use of human capabilities. The system 4 organization structure is appropriate, above all, for taking non-routine decisions.

Figure 9.11: Overlapped link-pin group structure

9.6 Strategy and Structure Connection

Introductorily we have defined strategy as a plan for a purposeful use of the resources available, and structure as a means of their integrated use. The organization structure has to carry out the strategy plan. The structure is, therefore, closely connected with the strategy, for the determined strategy influences the shaping of the organization structure, and the structure realizes its objectives.

The structure organizing of the production organizations is also influenced by the kind of the technology applied. Technology determines also the structure of the tasks and thereby also the organization structure. (Jerovsek, J.: Industrijska sociologija (Industrial Sociology). Obzorja, Maribor, 1972, pp. 96) Interesting are Woodward’s findings. By her research she has established that the organizations having a similar technology of production having a very similar organization structure. She has also found out that the number of hierarchical levels increases with the technological development, that the technological development gives rise to team management and that the number of the leading workers increases with the technological development. Also interesting is her finding that the type of the organization depends upon the kind of the communication structure and upon the distribution of the influence within the organization. (Perič, F.: op.cit., p. 14 - 15.)

The choice and the use of a certain organization structure depend also upon the management philosophy of the leading workers. The organization-management chooses the organization structure which is in compliance with its management philosophy. By the management philosophy we mean the relationship of the leading managers to the tasks and to the people in the organization. It is characteristic that the leading managers
orientated to people prefer adopting the interaction organization structures and those orientated to the tasks the organization structures involving authoritative decision-making.

The choice and the use of an organization structure depends also upon the kind of objectives and decisions as well as upon the concrete conditions of operating. In this respect there is an interesting statement made by Argyris:” If you ask someone what the organization structure of his enterprise will be in the future, he will ask what kind of decisions is in question” (Argyris, Ch.: op.cit., p. 211 - 212). By a more detailed analyzing of the influences exerted upon the shaping of organization structure we could establish that there are lots of these influences and that they are of various kinds. As such a discussion would exceed the scope of this paper, we are going to limit our selves only to the discussing of the strategy influence upon the organization structure.

The history of the development of a big organizations teaches us that the development passes through stages. From the initial growth in accumulating resources to the use of the earned, the repeated growth with expanding to new markets and to new products are renewed rationalization of the existing resources through a new structure. The organizations having conquered new markets have to transform the ways of communication. In the opposite case the services performing multifunctional activities lose their contacts with the new and even with the old markets. It is, therefore, an urgent necessity to adapt, with an appropriate strategy, the organization structure to suit the strategy and objectives set. If the organization wants to get acquainted with the new market, it has to organize the market research service. If we want to promote sales, it is necessary to organize publicity and sales promotion service to achieve the objective set. If we introduce automatic data processing, there occur through automation also changes in the structure of the employed. There is the need for analysts, programmers, operators and other staff. There appear new jobs requiring other relations in the organization.

The organization structure always depends upon the kind of the objectives set and of the decisions made. In our conditions, however, there is often the case of a reversed statement. On account of the resistance against the changes, the existing structures exercise their influence upon the shaping of strategy and of objectives. As long as it “runs smoothly” some existing staff use structures adapted to themselves, but these give rise to strategies and objectives which are incomplete and disconnected. (Kralj J.: op.cit., p.160.) Such a way, however, has always proved inefficient one, if not within a short, then quite certainly in a longer, period of time.

9.7 Virtual organization as a modern type of organizational structure

The concept of virtual organization has grown from a few years, it is apparent that some companies are moving to virtual. Not an easy task because the transformation is complex and requires a long time and should have the participation of all personnel of the company. The companies need to plan ways to become a virtual organization and to remain themselves competitive, aiming at to get profits.

They had appeared as a reply to the competitiveness and volatility of the market, form from a chance or necessity imposed for the market, establishing the cooperation and use the support of the Technology of the Information. When the objective will be reached the virtual organization if it dissolves or it rearranges.

A Virtual Organization is a temporary network of independent enterprises, institutions or specialized individuals that, through the use of Information and Communication Technology (IC/TC), spontaneously come together to utilize an apparent market opportunity. They bring their core competencies and aim to create a value-adding partnership. A Virtual Organization acts in all appearances as a single organizational unit.

Why the creation of a virtual organization?
There are a number of arguments to explain the existence of a virtual organization:
Sharing resources. Because of the agility that the market demand, companies seeking to share resources, each using its ability to capture a major market opportunity that presents itself in a quick and temporary.

Sharing knowledge. Currently no company can do everything all the time. It is impossible for any company to maintain all the knowledge necessary to manufacture and sell products and services in the global market
by itself. The company will associate itself with partners that complement the need of this knowledge, so that the sum of the whole party can produce.

Apportionment of cost. It is another motivating factor for the formation of virtual organizations as the item cost is limiting the development of new products or projects, inhibiting competitiveness in the market.

Supply chain. The economy is based on current information systems and services economy. The strategy of the service economy potentially leads to profitability. However, the services depend on manufacturing. The manufacturing itself is not only a major consumer of services, but also creates a healthy individual use to purchase services. The performance of individual companies will have no more space in the modern economy.

Agility. The demands increasingly specific, personalized, immediate and complex consumer market, forcing organizations to reduce the product life cycle. So the speed of communications and exchange of information about the product or project is essential.

Access to global markets. With the formation of virtual organizations, participants will have the ability to enjoy a much broader market.

The corporate management systems are antiquated and modeled in hierarchical organizations, old and outdated.

These structures are not needed now, as computers, telecommunications equipment and resources can make a better series of works that formerly needed to control and management of people.

Global Solutions. The potential to achieve partial solutions to the aggregation to the final product is no longer local, have passed through the operating speed of partners established at any point.

The systems of manufacturing or production enterprises are antiquated because they are still based on concepts of Ford and Taylor.

The Japanese are showing that new methods of production must be implemented, allowing an early management of inventories and requests of customers.

Productivity with quality. The way to achieve a substantial increase in productivity, quality work is concentrated in areas where the company dominates the technology, leaving the partners of the virtual organization, the work in the field of technology is not your everyday life.

Information alone does not improve productivity. Businesses have much to learn about the use of information. The systems are based on accounting concepts, which have never been reviewed in detail and do not contribute to productivity, especially taking into account the proportion of investments in the technology of information.

Competitiveness. The sum of the above efforts leads to a position of competitive leadership. Competitiveness is currently the predominant concern in the strategy for growth in modern business.

9.7.1 Characteristics of virtual organizations

By the definition of virtual organization can draw some characteristics, the most important are:
Crossing organizational boundaries. In a virtual organization we need the cooperation of multiple specialists, belonging to different areas.

Complementary core competencies. Participating companies are complementary, each company contributes to its key competence.
Geographical dispersion. Companies need not necessarily be near each other.

Participants in change. The virtual organization can be composed by different companies every day, according to the needs and business opportunities as they arise.

Equality between the parties involved. The members have an equal relationship based on mutual trust between the parties.

Electronic communication. The existence of the virtual organization is linked to information technology and communication.

Another important characteristic is the opportunism, the organization is formed to size a business opportunity and is disabled when the goal is reached.

Benefits Offered with the Emergence of Virtual Organizations

[BER97] has some advantages of firms and the elimination of investments, fixed and variable costs of all kinds: training, maintenance of employment in periods of low seasonal demand, underutilization of labor, equipment, leases and standing stocks.

The modular construction of a virtual enterprise offers many advantages compared with traditional organizations. Flexibility is the key word and is in areas that require organizations adaptable than traditional organizations will be displaced by rapid virtual corporations and opportunistic.

Each company is allowed real focus on their area of expertise and endeavour to be the best in this field. This means that a virtual corporation could really get the best expertise available for each function and thus create an organization “world-class”.

A virtual corporation can be extremely flexible and adaptable. Skills or functions that are missing can be easily obtained by addition of another company that has these skills available, and that’s where an organization should have to rebuild traditional plants to adjust production to the demands of the market, while a virtual organization could only restructure its organization through the hiring of a suitable partner.

The use of modern Information Technology is often crucial to the partners work together harmoniously. The Information Technology allows the work to be done over large distances and this will benefit rural areas that are low in population and resources. The freedom of the individual is maximized if he can do your homework, or tele-work. Partners that are parties to several firms are dependent on Information Technology to be able to work around the world.

Smaller companies can play a greater role and can act more competitively when part of a virtual organization.

Parallel to the appearance of the virtual companies the evolution of the work exists, being that one influences directly in the other. Because of this co-evolution some professions fall and other news, appear. The arising of these new professions can be considered a benefit brought for the virtual companies, a time that means a new chance of work.

The virtual organizations depend, profoundly ,from a workforce trained and qualified, able to make decisions and choose directions. There will be a complete revolution in the skills of workers to be and be prepared to absorb and survive the impact of this new form of organization. Many professions are subject to the disappearance and it is perceived, increasingly need to update and vocational rehabilitation. You must be able to view, manage and respond to episodes of the daily work of different types and applications.
9.7.2 Difficulties in Virtual Organizations

The virtual organizations are not free of flaws and are certainly not the only form of business for the future. Like most things, the firms have the negative side, it presents some problems to be solved with time and they must learn to live.

The virtual organizations are not free of imperfections and certainly they are not the only form of business for the future. As the majority of the things, the virtual companies possess its negative side that presents some problems that will be solved with the time and others with that if it must learn to coexist.

The smallest of the problems is the fact that the global communications are not good enough for all virtual corporations. It seems clear that they are not suitable for very large distances, in parts of the world rich, for corporations of global reach, but without large demands, requiring for example a video-conference. To enable a virtual organization of full functionality, using video-conference full-screen to unite different parts of the world, would require much more bandwidth and costs need to be reduced or the smaller companies do not. There are a number of functions that can not be made yet due to lack of technology. Technical problem is that the communications equipment are not compatible. Since the change at the global level is very high, there may be a need for change or adjustment of equipment. That would not be any problem if it happens once or twice, but with the rotation of partners, may simply be impossible to bear such costs. Another factor to consider is the complexity created by the existence of many partners in the virtual organization.

From the standpoint of managing information, communicating information within a virtual enterprise offers many challenges:

- Inadequate security controls, since the corporations participating in a virtual enterprise are independent and frequently compete;
- Loss of control over projects: techniques used to control a project in a corporation can not be applied to multiple corporations each practice because of different operating corporations;
- Inability of the systems of application of interoperability. The data produced by systems of a corporation can not be read and processed by other systems. This problem is divided into:
  - Semantic Interoperability- Two applications can not process the data from each other because they can not understand the internal organization of the data;
  - Interoperability of code- Two applications can not use the same features for not be able to rely on the resources of each other.
- Technology non-family systems and applications- Technologies of a corporation and application systems are often complex and require intensive training to use properly.

But the most important problems and more are in the organizational character. Within a virtual organization there are many difficult issues to be resolved, such as responsibilities and contracts.

9.7.3 Life Cycle of a Virtual Organization

Become virtual organizations is an evolutionary process of design and management of actions and reactions of dependence in the development of a business environment as well as the goals and behavior of participating companies. This process can be viewed as a life cycle model.

Some researchers [FUC97], [MER97], present their interpretations to the life cycle. For [FUC97], there is a distinction of five phases of the life cycle of a virtual organization. Pre-stage. Is characterized by an analysis of strategy and decision making of the initiator in the form of an audit to analyze the strengths and weaknesses, opportunities and pressures as well as skills and resources required and available at this time. Based on these results, it must be decided: whether the organization should remain alone, acquire or merge it to another company or to cooperate with partners. The decision to understand the strategy chosen by cooperation with other companies is the final step of the pre-stage.

Configuration. The setting is the stage where the virtual organization is formed. Occurs during the as-
association, when the company to take the initiative and start to browse and select the partners that have the resources and skills needed to further define the strategy, where potential partners pre-selected start a discussion and negotiation process, which requires many interactions, where the impairment occurs - the final stage of the setup phase, when the partners agreed on common goals and have a common mental model of the virtual organization.

**Design.** The stage of project shall implement the goals and roadmaps which are expressed in patterns derived from the objectives of the virtual organization. These scripts determine the application of the procedures for reference, information and communication technologies, logistics and cultural aspects.

**Operation.** During the operation phase is to generate real values of the virtual organization. For a virtual organization to be in operation, procedures of reference have been defined, and for the compliance of the objectives of the organization of virtual participants, a process of control should be installed, or issues that distinguish levels of operational control, strategic and normative. If deviations in the levels of regulatory control or strategic virtual organization are many great that can not be solved, the organization enters the virtual stage of dissolution.

**Dissolution.** The dissolution can occur as the end of its existence, when all the relations between partners are broken, meaning that the partners did not stop the activities between them. Normal relations between consumers and suppliers can replace the relationship between the virtual organization, or, so as to relaunch the virtual organization, meaning that a number of partners in the virtual organization is still convinced that the cooperative is the best vehicle for understand their goals. These partners may decide to change the rules to exclude partners, invite new partners or change the strategy. If the remaining partners decide to relaunch its virtual organization, they go to the setup phase, which should update the policy of the virtual organization.

*Figure 9.1: Life Cycle of a Virtual Organization seconds [FUC97].*

According to [MER97] the life cycle of a virtual enterprise can be seen with four stages, which the duration depends on the characteristics of the market which is part of the virtual organization and configuration of cooperating partners.

**Preparation and Analysis**
The driver of a foreign virtualization is the ability to manage the increased knowledge on the changes to be made in the business for the purpose of maintaining or increasing the competitiveness of the company. The management increased the company should be concerned to make their visions to become a virtual organization. Strategies must be formulated from these visions. An example of strategy would allow the networks to merge cooperatives in order to meet customer requirements more efficiently. As for virtual organizations, for the coordination of different companies quickly, fill the same order of business is essential, so, companies must integrate their processes. This requires an analysis of intra-organizational processes.

The connection within the cooperative networks for a given time requires the companies agree on common standards and norms, which must refer to products, services, processes, and the quality systems as a whole. Through the combination of ISO 9001/14001 and the principles and requirements of the EFQM model (European Foundation for Quality Management) a company becomes attractive as a partner for cooperation through the implementation of a quality system standard and widely dispersed.

Companies that implement your quality management system standards are based on companies attractive from the viewpoint of virtual organizations because the patterns create a trust, which is one of the crucial factors for the rapid construction of virtual networks of cooperation.

Configuration

The configuration phase is the “birth” of the cooperative network. Based on the profile of partners, as defined in the preparation phase, the partners for cooperation are sought. The network of cooperation can be built with partners both known and with new partners. The existence of a pool of partners who are willing and able to cooperate more easily find new partners and configure the network of cooperation in both economic and saves time and money.

Essential to the success of cooperation networks is the existence of overlapping features of a certain length. The most crucial changes are:

- An adaptation of the strategic partners of cooperation, especially the existence of win-win situations, strategies and goals compatible;
- A cultural adaptation does not require matching cultures, but compatible, that is, there must be high and the provision of mutual exchange of information;
- An adaptation of processes that enable companies cooperatives, their common processes efficiently and help coordinate them fast with low cost of transactions;
- An adjustment in the information infrastructure that enables the establishment, too, of the information infrastructure of the network of cooperation with a minimum of cost and time;
- An adaptation logistics, for example using standardized containers for the transport of materials between the cooperation partners;
- An adaptation of quality, for example, the placement of quality should be a consensus that the network of cooperation intends to acquire as much quality as necessary or as much quality as possible or be certified under the same rules and standards by members which means an economy of time and therefore a competitive advantage.

The configuration phase ends with the commitment to strategic goals and quality standards of the network of cooperation. Based on the above, a plan of action should be defined at that stage.

(Re) Project

In this phase, the infrastructure - of processes and information - of the virtual organization must be implemented.

The level of processes, the processes of inter-organizational companies that have established business relationships should be analyzed to identify areas for improvement. For new partners join the cooperative network, which must be built, processes must be defined with special consideration to their interfaces. In
organizational structures oriented toward flexibility, for example, checking duplicates are not acceptable. To monitor the implementation of processes, a range of frequency for the control of parameters, pap or lead times must be made because an exact definition of the parameters of control in fact adopt the stabilization of cooperation networks and reduce risks, but leads to a high degree of formalism and hinder the process of change.

The complexity of such structures, processes can only be managed economically supported by an infrastructure of information for high performance. Therefore, an infrastructure of information must be implemented with the following characteristics:

Opening- is the prerequisite for rapid economic changes in ad-hoc organizational structures, and the construction and extension of cooperative networks because it allows doing business in areas of information and communication technologies heterogeneous; Standardization- patterns of communication and data allow the exchange of information without problems. The standardization enables groups of the task force distributed to access the information that is needed for decisions.

Quality of service- the quality of service that provides information concerning the availability, reliability and flow.

Security- the management of security infrastructure to include access control, identification of users, and mechanisms of auditing and accounting. Nor is it necessary that all partners of cooperation need to know about “sensitive data” as a profit margin of product development or planned for each company, to manage cooperative network successfully.

Comfort- the infrastructure of information, such as the nervous system of the network of cooperation, should be comfortably accessible by any company, any group or any virtual employee.

Operation. This is where the cooperative network really works. For a specific order to better co-operation partners are configured outside of the network stable. A company has the role of manager that it should coordinate the activities within the network of cooperation and initiating reconfiguration of the network of cooperation if the performance is not appropriate to consumers. The order manager serves as a link of communication to consumers to ensure the quality of products and services and the date of delivery.

Important in cooperative networks is that the cooperation partners interact with each other in accordance with the principle supplier to consumer. The certainty of the quality of components, which are brought in the network of cooperation, has to own the responsibility of each supplier. As in any “real company” in networks of cooperation, conventional techniques of quality can be used to ensure the quality of processes.

9.8 Team shape the organizational structure

This last approach on the modern theories of organization, we focus on the approach by teams. The approach in teams emerged when companies were trying to find ways to make it happen the empowerment, delegating authority and transferring responsibilities to lower levels through the creation of participatory teams capable of winning the commitment of people. This approach makes the organization more flexible and agile and competitive in the global environment. The main feature of departmentalization by teams is that your configuration is predominantly horizontal, the horizontal organization provides a structure where the work is performed over the main work processes and not resting on a vertical hierarchy to coordinate the different activities. The advantages of using this approach is that self-sufficiency, flexibility, lower administrative costs, worker’s morale high, enthusiasm of the people arising from personal involvement, decisions are taken faster and the self. There are also negative points, they are tying double, difficult to get control, possibility of improvisation, and dual loyalty conflicts of subordination.

The approach of the organization teams creates multifunctional teams to perform specific tasks and coordinate major departments.

Types of teams:
• Teams Multifunction- employees of various functional departments grouped into a temporary team
• Permanent teams - work as a department within the formal organization

Characteristics of the approach in teams:
• Flexible organization
• Take full each organizational process

Advantages:
• External focus - The organizational unit’s goal is to reach the customer directly, and not to his superior immediately, namely the customer is horizontal, not vertical in the head.
• Self-management - the proper team plays its management through its members, what it makes possible a bigger involvement and satisfaction of these with the work.
• Self-sufficiency - To develop the processes of direct communication well, is necessary development of self-sufficiency of unit organizational, that is reached through the composition of the team of work for people who have a global vision of the process in question, that is, that they possess, for example, in an industry, knowledge of the area of sales, purchases, engineering, manufactures, human resources, etc.
• Agility - With bigger autonomy of the teams, the process cycles become reduced, what it speeds the process as a whole.
• Lower costs - With more dynamic, there is a reduction of staff required under the procedure, which reduces sheet and in direct costs for administrative integration of teams.
• Engagement of people - The horizontalisation makes possible the employee to have knowledge of all the stages of the process and to always understand the importance of its work for the success of the team, aiming at to the customer as goal for its personal effort.

The approach by teams also presents some disadvantages such as:
• Need a new mentality of people - The reengineering of teams requires a change in mentality of persons, which is achieved through a profound change in organizational culture.
• Need for support staff - The teams work more efficiently if they can to self, which is only achieved through the composition of multi-specialist teams in which there are members who have different skills. This requires a team of functional experts to support other teams formed.
• Dual subordination - In general the teams have a leader and are also composed of members of other departments, soon the collaborators will report for two superiors, what he characterizes a double subordination.

9.9 Influence of structural changes upon the carrying out of the strategies

In organization theory and in practice, too, much stress is laid upon the significance of the formal aspects of organization. Usually we are convinced that the organizational efficiency can be attained only through structural and formal changes. But when we make out the inefficiency of such changes we ask questions about the deeper causes which cannot be entirely explained, most often, through classical approaches of solving the organizational problems. An optimal organizational efficiency cannot be attained only by structural changes as other changes, too, exercise their influence upon the efficiency of the organization. For an optimal organizational efficiency, the organization should be, simultaneously, changed in a number of the fields or different kinds of changes should be made in the organization. According to Leavitt such changes are the following (Možina, S.: op.cit., p 19 to 21):
• structural,
• technological,
• human, and
• those concerning the working process.

Making only structural changes and believing in their efficiency was characteristic of the classic organization theoreticians. They thought that it was possible to exactly foresee any activity and to structure the
relationships between all the holders of tasks. They are laying down the principles and various directions for the adjustment of working processes and for orientating people to the achievement of the objectives set.

The supporters of the technological changes, on the other hand, think that the changes in technology are mostly influenced by the development of technology and by the changes in technological processes. In their opinion it is the technology that makes possible the development and the use of the new sciences in the organization (Ibid.), for instance, the theory of information process has not essentially changed the organization until there had not been developed and introduced the electronic computers. The supporters of the technological changes are of the opinion that ideas and the new sciences do not change the organization, but that only the technological achievements make possible the realization of new conceptions and ideas. They believe that the changes in technology are the bases causing and influencing the other changes in the organization.

The characteristic feature of a human approach to organizational changes is that it tends to change the organization and to attain its efficiency through changing people’s behavior. Through the changing of the people’s behavior we change the power structure within the organization. The supporters of this approach tend to more equally distribute the influence and power within the organizations among all influential levels within the organization. The basic aim they want to achieve is the abolition of the oligarchic distribution within the organizations. These organization theoreticians propose participation as the most appropriate way of mutual operating, of setting and realizing the organization objectives.

The supporters of the working aspect of the changes in the organization assume that the changes in the working process, equipment and in the working procedure most strongly influence the behavior of the employed and their labor results. The way of communicating is also connected with the kind of labor. The supporters of the working aspect of the changes start from the observation that group communication is more appropriate to more complex and combined jobs, and simpler individual communication to routine and repeating works. The changes in the communications, in the opinion of these theoreticians, most strongly influence the structure of the organization.

Through the approaches dealt with, we wanted to draw attention to the different aspects of the changing in the organization. The characteristic feature of most approaches is that they are more or less, partial ones. In the more recent organization theory, however, there have been developed more integrated approaches. The common characteristic is that they argue for the need for a simultaneous changing in the organization from different aspects. One of the very much used approaches is the managerial grid (Blake and Mouton: The Managerial Grid. Gulf Publishing Company, Texas, Houston, 1970, pp. 10.) Drawing attention to the need for an integrated changing in the organization. It links the human and technical, technological, as well as working aspects of the organization. The basic consideration of this integrated approach is that it is necessary for an organizational efficiency to make simultaneously the appropriate changes in people and in their behavior, as well as those in the technology and in working conditions. A simultaneous making of the changes in the organization from both points of view makes possible, in the opinion of these theoreticians, an efficient achievement of the objectives set and of the strategy of the organization as a whole.

The complexity of the operating in the contemporary organizations requires that there are simultaneously made all the necessary changes in the organization. By only one change only partial results are obtained, for instance, the changes in the organization structure cannot be achieved if people have not been qualified for their carrying out; if an adequate change has not been made in the methods and means of, work, etc. Only a simultaneous changing in the organization to a certain extent and according to the determined aspects can ensure an optimum organizational efficiency.

9.10 Conclusion

The organizing of the structures means a determined business and management strategy. By the business strategy we mean the defining of the business objectives, the choice of the direction of operating and a purposeful distribution of the available resources, necessary for the realization of the objectives set. The distribution of the resources is reflected in the organization structure which is a means of realizing a determined
strategy. In addition to strategy, the organization structure is influenced also by the business objectives and by the kinds of the decisions, as well as by the conditions of operating. The organization structure of an organization is the result of the influence exercised by a series of factors. For this reason it is not possible to talk about one type of the organization structure in the contemporary organizations of associated labor, in spite of a determined type being prevailing. On account of the concurrence of influences exerted upon the organizing of structures, it is necessary for the organizations to simultaneously use various organization structures with regard to the business strategy, business objectives, kinds of decisions, and conditions of operating. The organization structures have to be also adapted to the changed strategy, objectives, decisions and conditions of operating. In changing the organization, however, we must know that the structural changes are but one aspect of adjustment of the organization and that, besides this aspect, there are also important technological changes, the changes in people’s behavior and the changes in the working process. The highest efficiency of an organization can be achieved if all the necessary changes are made simultaneously.

Review Questions

1. How would you define an organizational structure?
2. Try to explain the connection with strategy and structure!
3. What kind of organizational structure do you know?
4. In what cases are the hierarchical organizational structure efficient?
5. What are the characteristic feature of individual structures (functional, staff-line and combined structures)?
6. What are the basic differentiating characteristic feature of the project organizational structure?
7. Describe the matrix organizational structure!
8. What are the basic characteristic feature of interactional organizational structures?
9. What changes should be made in contemporary organizations?
10. What is the most appropriate organizational structure for a multinational company?
11. What is the structure most suitable for small and medium enterprises?
12. The virtual organization is the organization of the future?
13. That to make in an organization when the objectives are not reached?

References

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10  ORGANIZATIONAL MODEL DESIGN

10.1  The notion of organizational model design

In organizational literature and as well in the practice for designing and redesigning of present any organization we use different terms. Often used terms are the following: designing, modeling, organizing, structuring, organizational layout and others. In Slovenian organizational theory and practice is the most often use the term organizational design. In further discussion we will use that term.

Organization design is a special scientific discipline. It is an establishing and constructing process of interrelations between participants within the organization, creating of organization procedures and selection of organization means.

The result of designing is an organization model as desired state of organization. Model means illustrative depiction, sample, draft, form, mold and many other terms. The main reason that we use the term organizational model lying in the fact that real organizational model of an organization always distinguish from the ideal model. Formal organizational model in every observed moment is idealized and for that reason we talk about model and not real organization. These differences are caused by many internal and external factors.

The main task of organization design, as a special scientific discipline, is to find an answer to the question of how has to be an organization organized to work efficiently in determined business conditions. The problem is in organization structures and organization means which have to be examined and evaluated through analytical rating of the existing organization. The organization judgment and investigation is therefore a pre-phase of every purposeful organization design.

In accordance of detailed range of competences and responsibility and consistency of the employees’ relationship that caring out common task we distinguish three level of organization models, so called macro-, mezzo- and micro organizational model.

An organization model we can define as an evident presentation of delimited competences and responsibilities and coordination of all relations between the participants in the associated labor in the way which enables successful deduction by division of work assigned tasks. We differentiate a macro-, mezzo- and micro-organization model.

Macro-organization model is basic structure of business functions or organizational units within the enterprise and necessary regulations of their relations.

Mezzo-organization model is a structure of work divisions, sections and units within a department of an enterprise and organizational regulated relations between them.

Finally, the micro-organization model is a structure of work posts within the individual organizational units and a total system of work procedures and other regulations necessary to perform assigned business activities of individuals or work groups.

Every enterprise, regardless of its peculiarity of objective business conditions, suits determined organizational model that under the existing business conditions enables it to achieve optimum business results. The idea of an organization model is very complex, because the organization model embraces all static and dynamic components of organizing the business of an enterprise. The static part of the organization model relates to the organization forms and to the division of labor up to the work posts as well as to the demarcation of the scope of work and the responsibility of every work post within the enterprise. By means of the static part of the organization model we wish to achieve more rational organization capacities deployment, required under various organization bases.
The dynamic part of the organization model relates to the effects of the organization of the overall business activity and to the adjustment of all elements of the business quantitatively and qualitatively in time and space. The dynamic part of the organization model is systematically arranged by means of various organizational regulations. We could say that by the static part of the organization model we have to answer the question “What should be done” and “Who will perform the particular tasks”, while by means of dynamic part of organizational model we must provide a reply to the question “how are we going execute the particular tasks in order to obtain better business results”.

Every change in the business of an enterprise calls for new designing of the organization model. How intensive and extensive these changes are depends on the altered conditions of the business. Most frequently these are the changes in the make-up of the production program. These changes are the result of the market demands and the changes in technology and the work methods as the consequence of technical and technological development.

The business activity of an enterprise is exposed to the influences of the tendencies of the contemporary production. The influence of these tendencies become more and more intensive the demands of consumers as to the properties of products and the economical application of production means become more and more pronounced. Conditions under which the business is going on become more and more unstable. This all has as a result the fact that the organization models must be adjusted at an accelerated rate to the changing business conditions because the older organizational solutions become outdated. Therefore we understand the organizer’s desire to determine the elements that facilitate quick and successful redesigning of organization model. The aim of this chapter is to illustrate the procedure of determining the elements of organization model designs.

### 10.2 Strategy of organizational model design

Whatever the model of organization design is used for a certain strategy. By selecting a strategy to decide where we will begin to change the organization - at the top, bottom or in the middle of the organizational pyramid. Depending on where to start with organizational change is already far advanced type of strategies. The most important are (Buble, 1995, p. 19):

- The strategy from the top down (top down)
- Bottom-up strategy (basis-upward)
- The strategy of both sides (bipolar),
- Strategy and studs
- The strategy of multiple nucleus (nucleus of multiple strategy).

Using strategies from the top down (top down) begin to change the organizational structure of the top and then gradually moving towards the bottom of the organizational pyramid. Successful use of this strategy is based on the belief that the overall success of organizational change depends on the successful introduction of organizational changes at the top of the organization. Users of this strategy assume that the organizational changes at lower levels depend on the success of the changes at the top of the organization. We assume also that the resistance and difficulties that occur at the top of the organization are also characterized by lower levels of the organization.

Strategy from the bottom up (basis-upward) changing organizational structure on the first level of the organizational pyramid and a gradual transition towards changing the organizational structure at a higher level of organization. This strategy, organization design engineers use when they consider the major organizational changes at lower levels depend on the support not only from management but throughout the organization. This strategy is used primarily in decentralized organizations where the role of organizational units or work group in relatively high.

Bipolar strategy of changing start changing from the two poles of the organizational pyramid - with the top and the bottom. This approach provides a wide use of initiatives, proposals and suggestions, which appear in the process of changing the organization. In this strategy may remain closed middle level management in the “sandwich”, which may provoke resistance to that approach, and also against the organizational change.
When using the strategy pegs begin to change the organizational structure in the middle of the pyramid or in the middle amendment and then moving towards the top and bottom of the organizational pyramid. Using this strategy is particularly recommended in divisional structure in which we begin to change the organization of the divisional units.

The strategy of multiple nucleus begins to change the organization in various parts of the organization and at the various organizational levels of the pyramid. It is used in decentralized organizations in which hierarchy is strongly expressed. Organizational changes need to be taken anywhere to their introduction, to ensure the integrity of organizational solutions.

Choosing a strategy of changing the specific organization depends on a number of factors subjective and objective nature. The strongest factor is certainly itself a form of organizational structure, by the organization, management style, the extent of organizational change that we want to introduce, and the complexity of the changes themselves.

### 10.3 Key factors in designing of organizational model

The formation of structure of each organization is affected by many factors. Key factors for the creation of the organization are shown in figure 9.1 (Hellriegel, 1992, p. 366)

- Environment,
- Technology,
- Information system
- Life cycle stages.

*Figure 10.1: Influencing factors for the creation of the organizational model*

#### 10.3.1 Environmental impact on the design of organization

Organizations are inextricably linked with their environment. The organization must determine the effect of the environment and organized to be able to adapt to those environmental influences that have the strongest impact on its operations.

When we talk about environment of organization, usually we think of the market environment. Although the environment of organizations is much wider and more comprehensive compared to the market environment. Environment of organizations can be permanent or impermanent, homogeneous or heterogeneous. Major parts of the global environment are mainly:

- the natural environment (natural conditions and natural resources),
- the economic environment (market and finance),
- technological environment,
- domestic environment,
- the external environment,
- social infrastructure and the environment: state, political parties, science, culture, etc.,
- economic policy measures, and others.

Environment of organizations is becoming increasingly unstable, uncertain and varied so we have to design the structure of the organization that will best meet the needs of the environment and the requirements of the organization itself. Those organizations that do not adapt their organization to the needs of the environment, operating poorly or fail even. By the structural changes, the organization must focus on those elements of the environment, principally which affect the operation and development of organizations.

**Stable environment**

Stable environment of organization, characterized by small changes in products, technology, competition, market or political implications. In a stable environment is a little change. Changes that occur, the minimum impact on the inner workings of the organization. Characteristics of a stable environment are (Hellriegel, 1992, p. 358):
- products organization are slowly changing,
- the organization is characterized by low technological innovation,
- continuing competition, customers and other stakeholders,
- a consistent policy of the government and others.

In a stable environment manager can monitor most of the events. Organizations, such as breweries, dairies, organization for fast food preparation, glass factory, the factory of agricultural machines and tools, etc., operating in a relatively stable environment. While these organizations change their products, they are relatively easily be introduced into existing production processes.

**Changing environment**

Changing environment is unpredictable due to frequent changes in products, technology, competition, market or political implications.

Changing environment has the particular features as (Hellriegel, 1992, p. 360):
- products and services are constantly changing and evolving,
- the majority of technological innovation (process and equipment) quickly extinguished,
- changing the number of competitors, customers and other participants,
- unpredictable government measures, which show different common interests for protection of consumer protection, production safety, pollution control of environment and other civil rights.

Organizations operating in an unstable environment are under constant pressure because they have to adapt production to customer requirements. Such organizations often change the products and services according to customer requirements and buyera. Organizations operating in a changing environment, are for example: organizations in the field of telecommunications, computer hardware (hardware) and software (software), electronics and fashion industries.

Consistent and stable environment requires a different organization in comparison of the organization operating in rapidly changing environment. After this realization, the Burns and Stalker have developed two models of organization: mechanistic and organic model of organization (Tom Burns & G. M. Stalker, 1968).

**Mechanistic model of organization**

In mechanistic organization are activities broken down into specialized tasks, decision making is centralized at the top of the organization. A mechanistic model of organization corresponds to a stable and unchanging environment. After the design is a bureaucratic organization. In it is a detailed division of labor, relations are regulated by a series of detailed instructions and impersonal rules, reached a high degree of specialization in the performance of duties and tasks, the organization is built on the principle of hierarchy, the one-way
flow of communication from the top down organizational and ensure unity of command of the supreme leaders that the organization has full control, the organization operates at a pre-prepared programs, there are particularly important rules and their proper use.

A mechanistic model of the organization is ineffective by itself. On it’s effectiveness impact environmental.

A mechanistic model of organization is inappropriate for an environment that is rapidly and radically changed. Mechanistic organization operates under established rules that employees carefully used. When it comes to sudden changes, such an organization gets into trouble. Can not quickly adapt to change. Working in such an organization is highly specialized and employees do not know who should accept the new responsibilities that require changes. But when organizations adopt the necessary rules, it is usually too late. The organization also loses its advantages, however, appropriated by the organization reacted quickly to changes in the environment.

For the mechanistic organization is characterized that in it appear hyper jobs because employees refuse to accept new duties imposed by the amendment. Everyone makes only what is dictated by the rules, and nothing more. Therefore, an organization create jobs for those tasks and duties imposed by the amendment.

Advantages of mechanistic structure are the same as the benefits of bureaucratic organizations, whereas the mechanistic model of organization is the same to ideal type of bureaucratic organization. Thus, the mechanistic organization is the most efficient in stable environment for those production, which does not vary and can be programmed in a relationship it is formalized. Subordination to the law, hierarchical relationships, high division of labor, etc.. however, not only give positive results, although mechanistic organization operates in an ideal situation.

Organic model of organization

Organic model of organization focuses on teamwork, communication and versatile decentralized decision-making. Organic model of organization is a kind of participatory organization. Tasks in it are only indicative and outlined the jobs are not detailed. The tasks are coordinated by their own posts in contact with each other. Information, commands and instructions are given in the form of counseling. Communication between people at different levels are more similar to the horizontal than vertical ordering consultation. Managers in such organizations do not attach more omniscience.

If the market is unstable and is constantly changing, if it is necessary to constantly change technology, to explore new approaches in an organization, there is the best organic model of organization. Such a model requires imaginative people who have great knowledge and ability to create new solutions regardless of hierarchical level.

Hierarchical levels in the organic structure do not have clear boundaries. Strict hierarchy of the omniscient boss, who knows all the rules, the organic organization is totally inadequate. An organic structure is flexible, between the different levels should not be barriers to the use of knowledge, if it is possible to get.

Since the organic organization jobs are not precisely defined tasks and duties are not precisely defined, can take the sudden change in the new tasks of all employees. Such an organization does not have a clear, simple rules of engagement. Employees do not know exactly what duties and rights they have, this is particularly true for non-productive jobs or employees, so there may be conflicts. Employees want to know what kind of influence and responsibility gives them their jobs. They want to learn the instruments which protect their rights, this organic model of organization does not allow. Therefore, the organic organization continually striving for this, so that it became part of the mechanistic model, in which everything is clearly defined by rules. In any event, any organization which does not regulate its own conduct and operation by the rules, has a significant shortcomings and potential dangers. Such an organization can become a highly autocratic, in the hands of one or more very small groups.
An organic organization is most effective when its environment is very volatile and the situation of constant technological change in the organization. Such an organization is able to quickly and effectively respond to change, so it is successful when it requires a new social environment changes, which have no defined consequences. The advantage of organic organizations in making quick decisions. This raises some disadvantages, because the very quick decision-making is difficult to realize the principle of democracy, as many people involved in decision-making is, this is usually a longer decision-making process.

An organic structure is suitable for those organizations who are struggling for existence in a highly volatile environment. In the struggle for its existence requires the organization very quick decisions, although these do not provide optimum benefits. In the organic organization the relationship between employees are good and friendly, because they do not restrict the rigid rules. Employees are required to be capable, flexible and sensitive to change. However, the organization offers them work, which is very far from routine tasks.

Organization operating in unstable environments, tends to differentiate its organization’s internal structure. The more precarious is environment, the more differentiated the organization, thereby to form a number of organizational units in particular fields. Differentiated organizational system requires a high degree of formalization and there are large differences in problem solving and ways of thinking of employees. All this of course requires a high degree of internal integration organizations.

Distribution of influence in organizations, which operates in the stable environment, other than the organization that operates in an unstable environment in much different. Distribution of influence in an organization working in the stable environment, in the distribution of classical hierarchical, in an uncertain environment, it is more democratic.

**Comparison of mechanistic and organic organization**

A model of organization can be effective in one organization, meanwhile in the other is ineffective or poorly effective. For this reason, organizations must know how to use the model of the organization that they will work and do business effectively. Notwithstanding the tendency of some organizations that would be the most isolated environment, the organization as a whole, however, cooperate with the environment. Each organization receives inputs from the environment, to environment gives output.

Organizations are working hard to label them would not be affected by the impacts of the environment, organizations could not respond properly if the correct response at all can provide.

**Table 10.1: The differences between mechanistic and organic organization**

<table>
<thead>
<tr>
<th>Mechanistic</th>
<th>ORGANIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tasks are highly specialized.</td>
<td>Tasks tend to be independent.</td>
</tr>
<tr>
<td>The tasks should remain fixed, unless they are</td>
<td>Tasks are continuously adapt and redefine in</td>
</tr>
<tr>
<td>changed by senior management.</td>
<td>mutual interaction.</td>
</tr>
<tr>
<td>The specific roles (rights, obligations and</td>
<td>Generalized role (responsibility for the</td>
</tr>
<tr>
<td>methods) are prescribed for each employee.</td>
<td>performance was broadly defined) are</td>
</tr>
<tr>
<td>The structure of control, authority and</td>
<td>acceptable.</td>
</tr>
<tr>
<td>communication is hierarchical.</td>
<td>The structure of control, responsibility and</td>
</tr>
<tr>
<td>Communication is primarily vertically between</td>
<td>communications network.</td>
</tr>
<tr>
<td>superiors and subordinates.</td>
<td>Communication is bilateral, vertical and</td>
</tr>
<tr>
<td>Communications are mainly in the form of</td>
<td>horizontal, it depends on where the user</td>
</tr>
<tr>
<td>instructions and decisions issued by superiors</td>
<td>information.</td>
</tr>
<tr>
<td>and subordinates of the requested information.</td>
<td></td>
</tr>
</tbody>
</table>

The existence and success of an organization depends primarily on how the organization is qualified to adapt to those environments from which most depends. Organization must therefore be organized so as to be able and best placed to address and manage these environments.

10.3.2 Impact of technology on organizational design

Technology is the process of transforming information and materials into finished products. Technology is an important variable that affects the design organization. In general, the technology can be defined as the process of transformation of material elements and information in the final product or service. Most people associated with the technology, machinery and equipment used in production, although the technology has much wider impact on everyday life. All organizations use technology to shaping the organization.

The technology that the organization, a strong influence on the structure and form of organization. Different types of technologies will have different types and forms of internal coherence. Technological interdependence is the degree of coordination required between individuals and departments that the information and materials are transformed into final products.

10.3.3 Information systems and organizational design

Performance of the organization requires an appropriate information system. To modern organization only meet the requirements of modern integrated information systems. Business informational integrated system cannot be built in isolation, and partial, but only in association with coping with fundamental processes of the organization.

The basis for setting up an information system are the information needs of decision makers within the organization. Each activity is accompanied by processes in the organization of information processing. According to the findings of modern research managers spend nearly 80 percent of the time for preparation, processing and exchange of information (Hellriegel, 1992, p. 369). Informations link together people in the organization.

The creation of an information processing organization depends on the stability of the environment and the used technology of organizations. Rapid changes in the environment of the organization and in technology causing some uncertainty. In terms of organization design is due to the uncertainty discrepancy between the amount of information needed by the organization, and the amount of information, which already owns.

10.3.4 Organizational life cycles

Development and growth of the organization affects the design of its organization. In any organization, like in every living organism denote the birth, growth and eventual death. Creation of the organization has to adapt to life cycle stages of organization.

Organizational life cycle is a sequence of major phases of development of organizations. Any organization migrated from one to another life cycle of a given speed. Organizational life cycle can be viewed in various stages of development. From the affect of the development of organization to create its structure will be distinguish these phase (Zuberbuehler, 1989, p. 32):

- phase of formation,
- the growth phase,
- stage of differentiation,
- phase of consolidation and
- liquidation phase.

These are the phase sequence of development and the natural progression of the organization. Each stage gives managers specific options for the design organization, as well as problems arise.

In practice, time and again we note that a relatively stable life cycles are interrupted by a sudden crisis. In this context, the questions: What is happening? What causes this subversive effects? Why has a long successful organization suddenly come in the middle of chaos? Most often associated with changes in life
stages of organization. We can say that the organization goes through specific life cycles and management positions, and that not every manager is suitable for every circumstance.

The organization is a complex system, characterized by overlapping and simultaneity of several states. We have to know the organization and evolution of this requirement to elicit successful management.

Showing lifecycle organizations based on life cycles of organizations and markets. In doing so, we must consider that the life expectancy of organizations in normal times, much longer life cycles as shown. The organization can also change the buying and selling. Even parts of the organization can show different life cycles.

The organization is constantly changing from stable to labile conditions. In this critical conditions management transition from one life stage to another. The transition from one phase to another always causes anxiety. Fractures and crises can arise in any phase. Therefore, we need to know that the organization is in constant change. Changed the stability and dynamics, evolutionary and revolutionary phases.

10.3.5 Adapting to changes in the organization of the key factors

Organization structure design is a reflection of the environment, technology, information needs and life cycle of the organization. There is no organization that would be suitable for operation throughout the organization. Managers should select the organization that meets the needs of the organization over time. When the change in the organization needs to be changed also needs to change its organization. Form of organization has a plan to assist the organization in achieving stated goals. This may not be the end itself. The structure of the organization must constantly adapt to changing environmental organizations, changes in technology used, the type and characteristics of information systems and stages of the development of life cycle of the organization.

We have already stressed that managers can use a variety of organizational structures, or combinations thereof to achieve the goals of the organization. The functional organization structure is appropriate for the organization when it is in the planning stages and during the growth phase. Stage of differentiation corresponding to the particular product or spatial structure of the organization. Matrix organization is only suitable for large organizations that operate at the stage of differentiation and consolidation, and operate in relative stable environments.

A decision on the scope of responsibility and the freedom of employees to make decisions shaping the structure of the organization. If most of the decisions adopted at the top of the organization, senior managers must supply the necessary information. To accomplish this, we design the vertical organization of an information system that provides information exchange across the vertical organization. In this case, mechanistic model of organization design. In a matrix organization, the decisions delegated to those managers who are closest to the happenings within the organization.

10.4 The analytical rating of organization

The analytical rating of organization is a process of diagnostification to make as see the advantages and weaknesses of an existing organization. It should serve to prevent organization weak-points and not just to suppress them.

The more significant phases of the entire process of investigation of an organization we can breakdown as follows (Ivanko, 2004, p. 59):

- anamnesis,
- analyses,
- diagnoses,
- therapy,
- introduction,
- control, and
- correction.
Entropy is a rate of disorganization. Decrease of entropy and results improvement depend on recognition of the present organization, disadvantages and proper measures. To ascertain the state of an organization and to program the appropriate reorganizational measures various analytical methods are used which can be grouped as follows:

- The routine analytical methods which draw conclusions about the state of an organization’s operation on the basis of analyzing a given working company’s organization as compared with that of related working companies.
- The conventional/classical/analyzing methods which draw conclusions about the state of a given organization’s operation on the basis of - expertly and in detail - analyzing the operation of this organization units and business functions.
- The inquiry methods of analysis which draw their conclusions (about the enterprise’s operation) from the movement of the business result characteristic indices and from studying the interaction of the operating elements, of the functions and the organizational units.
- The financial and economic analyzing methods. Those analytical methods are based on analyzing and interpreting the indices of business result by time and space;
- The analytical methods based on examining the constitution of the common operation by its components and the essential business processes.
- The moment perception method/snap reading method/ which is based on survey theory.
- The establishment of organizational profiles upon the Likert’s system /Profiles of Organizational Characteristics/.
- The complex analytical methods based on splitting up the common operation into business functions, the operational elements and working procedures.
- The method of analytical rating of organization according to the process functions. These functions are: to evident, to inform, to control, to analyze, to decide, to plan, to coordinate, to organize and to perform.

Each of the above mentioned methods has its advantages and its foibles. Their knowledge and their mutual comparison, in a given instance, permit to choose the method leading to the best results, considering the target aimed at by the analysis of the organization. The assumptions of analytical rating are the basis for organization model design.

10.5 Splitting the total business activity

The starting point of designing or redesigning of organization model is the common task of the enterprise. The common task of the enterprise must be broken up into individual activities appropriate for organization model design.

The most frequent bases for splitting the total business activity according to Kosiol are (Ivanko, 2007, p. 126):

- process,
- object,
- rank,
- phase and
- objective.

The consistent application of the mentioned bases enables us to break down the total business activity into the single activities which are convenient for designing the organization model. In combination with vertical approach we can split up the enterprise activity into the following four broad groups (Ivanko, 2007, p.129 – 131):

- business functions,
- scopes of work,
- business elements and
- work procedures.

Business function is the synthesis of a specific business object related and interdependent part of the tasks to be performed by specially trained operators - holders of the tasks in the rounded part of business process.
Scope of work is a synthesis of the partial objects of a specific object-related and interdependent part of the tasks to be performed by specially trained operators in the partial specific processes that define the functional content of each business process functions.

Business element is a part of the process or scopes of work on the basis of rank, or degree or purpose defined partial task which is able to create an organizational unit.

Work procedure is a specific work task, which should be performed by a qualified task holder on the specific job in order to do the tasks associated with the element of the business.

The groups of business activities can be termed the elements for design or redesign the organizational model from the static point of view. Business function is a set of working operations forming a clearly defined sphere of work in the enterprise. The business function is therefore a manifested form of technical division of labor in the enterprise. The business function can be defined as a set with special object linked and depended partial activities performed by adequate skilled bearer of activities in a round off partial functional business process. In the choice of business functions we must respect the peculiarities of the enterprise. In an average size of enterprise we can distinguish the basic business functions, infrastructural functions and the managerial functions. The basic business functions are (Ivanko, 2007, p. 69):

1. Research
2. Development
3. Investment
4. Technical preparation
5. Operative preparation
6. Purchase
7. Basic production
8. Auxiliary production
9. Parallel production
10. Maintenance and manufacture of production means
11. Technical control and
12. Sales.

Infrastructural functions are (Ivanko, 2007, p. 67 -68):

1. Personnel
2. Finance
3. Accounting
4. Safety and
5. General

The Managerial functions are first of all the following ones (Ivanko, 2007, p. 67):

1. Decision-making
2. Leadership
3. Planning
4. Organizing, and
5. Data processing

For every enterprise we must define and choose its business functions as basis for further split apart into the scopes of work. The idea of the scope of work is by its contents narrower than the idea of business function; it represents a clearly defined part of business function in its initial and rough breakdown. The scope of work is a set of partial activities linked and interrelated with the partial object, performed by the adequately skilled holders of tasks which as to contents define functional process of individual business function.

At the breakdown of business functions on the scopes of work we have to respect specific feature of the enterprise. We must define them and select as many as we really need for a clear definition of the contents of business function and for the overall redesigning of organization model of the enterprise.
The number of scopes of work differs for every function. The scopes of work will be illustrated only for
sales function. The sales function consists of the following scopes of work (Ibid.):

1. Sales market (research)
2. Advertising and publicity
3. Buyers
4. Acceptance of product and inventories
5. Sales procedures
6. Sales routes and transport
7. Sales prices
8. Exports
9. Payment on account of the made out bills
10. Claims and complaints
11. Sales costs
12. Organization of sales function.

For the design of organizational model it is not enough to divide the business function into the scopes of
work. For this reason we must continue the breakdown procedure of the scopes of work into the business
elements. The landmark for forming the element of business is the idea that every business activity must
represent the phase of work in the individual scope of work. The elements of business activity is a phase of
work within the scope of work or on the basis of rank, phase or object determined partial activity appropriate
or forming the organizational units. Therein we must try to see that all elements are given names of work in
order to make it clear which phase of work the element of business activity is representing. Of course, such
definition of the term causes considerable difficulties in the concrete formulation of elements of business
activity. The number of elements per individual business function is different, the fact which makes us aware
of the complexity and involvement of the individual business functions whose work phase represent the ele-
ments of business activity. For instance, we shall breakdown sales market as a scope of work into business
elements. The elements of this scope of work are first of all the following:

1. Analysis of market conditions
2. Compiling the plan of market research and the choice of methods
3. Data collecting and their utilization in the market analysis
4. Analysis of the collected data referring to the sales market
5. Formulation of conclusions of the market analysis.

The last step in the breakdown procedure of total business activity is related to the working procedures. The
volume and complexity of the task of forming procedures represents the most extensive and the most dif-
ficult task in the designing or redesigning of organization model. But we do not actually need the working
procedures for redesigning or designing of macro- and mezzo-organizational model. We do not need work-
ing: procedures if we use the graphical-matrix method.

### 10.6 Methods for organizational model design

Organizational model design as a relatively specific scientific discipline, since yet has not developed a clas-
sification of method for organizational model design. According to my knowledge and my experience I as-
sume the following classification of methods for organizational model design, i.e.:

- classical/traditional method,
- operation research method,
- system engineering,
- system analysis,
- complex analytical method,
- graphical-matrix method, and
- complex graphical-matrix method.

The use of conventional/classical method of organizational model design is consisting of comparison of an
ideal model with the existing model of organization.
Operational research methods (linear, nonlinear, dynamic and heuristic programming) we use for calculating varies optimums. These methods are appropriate for partial and individual problem solving.

System engineering application consist off three phases, i.e.: preliminary study, main study and detailed study.

System analysis as a method for organizational model design we usually apply in the case when all variables are not known. Within the system analysis we use the operational research method.

Complex analytical method we use for rating of present organization and for designing it’s organizational model. This method requires splitting common task of an organization to business function, business elements and work procedures.

At graphical-matrix methods for illustration of relationships we use graphical geometric symbols. The most significant those methods are: work distribution chards, functional diagrams linear responsibility chards, diagrammed methods, and complex graphical-matrix method.

Each of mentioned methods above has it’s advantages and it’s weaknesses. The proper use of single methods depends on the detail of organizational model design.

Because of the lack of space and time we shall in further discussion illustrate only the simplified sample of using the complex graphical-matrix method.

10.7 Sample of organizational model design

10.7.1 Graphic matrix methods of organizational design

By splitting up the overall business activities into business functions, scopes of work and the elements of business activities we obtain the elements needed for the formation of organizational units. The procedure of forming the organizational units is carried out in the following way:

- The elements of business are arranged into existing organizational units;
- If check whether the business elements that have to be adjusted to the peculiarities of the enterprise are suitable for the formation of the organizational units;
- If necessary, we remodel and correspondingly adapt the individual elements of business for the formation of working units units;
- Finally, we form the organizational units. Classification of business elements into organizational units represents the core of the project macro- and mezzo-organization model of the enterprise.

The business element, from the organizational point of view, is defined as a phase of work in the scope or sphere of work of business function. We can conclude that the business elements are the part of one whole, i.e. immediate or direct parts of business function and the total business activities of the enterprise. The element of business cannot therefore be independent; they are interdependent within the framework of the activity scope as well as within their business function. And not only that! The elements of business of the organizational units are mutually related in regard to the other organizational units, meaning that they must be linked with all organizational units. The effects of any organization cannot be conceived without the links among the phase of work. The linking connection of work phases must however form a comprehensive organizational entity. We call these connections the functional linkage of the organizational units. For every business element we must establish the touching points with all the organizational units of the enterprise. The number of the touching points of all elements of business in all organizational units gives us a communication network of the enterprise. The touching points between the organizational units or concrete holders of tasks can be efficiently regulated by graphical-matrix method, for example:

Graphic matrix methods are an effective theoretical tools for delineating the authorities and responsibilities among organizational units and their leaders, managers and associates. These methods are suitable for the exploration and clarification of current organizational problems of the managerial and professional staff.
With graphical matrix methods relatively simple and clearly define the obligations, rights and responsibilities of individuals in everyday situations changed, caused by a number of influential factors. Graphic matrix methods of organizational design are primarily aimed at organizing and managing the business and more important professional tasks within the organization. The best known theoretical defined graphic matrix methods are work distributions charts, functional diagrams, linear responsibility charts and diagrammatic method of organizing. Due to space limitations we only present below a summary table of work distribution activities and responsibilities of the linear graph and show the compact design of a complex matrix methods of organizational design.

10.7.2 The concept of diagram

The diagram is a graphical representation of the real or imaginary complex connections of an event (Nordsieck, 1962, p. 9). At diagrammatic representation in the organization we use the geometrical symbol technique, which can be an effective tool to demonstrate the organization. Because of the usefulness of symbols becomes a diagram something special, because the means for representing not only replace but also restricts wording.

Characteristic properties of graphs are: brevity, transparency, clarity, beauty, precision and two-dimensionality. The brevity of the performance diagrams showing the use of symbols. Symbols are small sketches of things and concepts, which in different circumstances, replace the entire conceptual complexes. For reasons of transparency, clarity and vividness makes sense to limit diagram, demonstration processes to a minimum. Schematic diagram is seen in figure 9.1

*Figure 10.1: Schematic diagram of organization design*

10.7.3 Work distribution chart

Work distribution chart is used primarily for organizing managerial work posts and their holders in the various organizational units (foreign authors have called activity analysis chart or work distribution chart). Because of the use of for the distribution of the necessary activities of the organizational unit, its work posts and their holders in the organizational units, we can call them also as tables of distribution activities (activities).

The work distribution chart based on the activities of two-dimensional system of analysis of business activities in their implementation of a coordinated several holders of tasks. One column means business activity in the order of descending importance. In the head of table are recorded work posts (holder of the tasks) of organizational unit. Responsible for tasks characterized by job or by the name of a colleague. The head of
the table enter the names of all collaborators analyzed of the organizational unit, so that for each employee contains a specific column in the table.

If the work distribution chart is used to show activities and arrangement of the existing structure, we collect information about the actual distribution of tasks between colleagues with a simple questionnaire. In doing so, cite the appropriate and necessary time spent working each activity. Thus obtained and verified information on an existing distribution tasks are entered in the appropriate fields in the work distribution chart. The sum required and the hours spent on all business activities must be given the sum of hours equal to the normal full-time, while we keep the amount of time in a separate column.

Characteristic of work distribution chart is to give a verbal description of the task and not with the symbols and the basic unit of distribution of tasks is individual. This form of analysis used to analyze the distribution of tasks within an organizational unit.

The work distribution chart is used at (Ivanko, 1992, p. 217):
- the analysis of the organization to detect inconsistencies in workload between colleagues;
- the cost valorization to assess the average cost for each activity.

A small fragment of the distribution chart is shown in table 9.3.

Table 10.3: A fragment of work distribution chart

<table>
<thead>
<tr>
<th>TASKS' HOLDER</th>
<th>TECHNICAL MANAGER</th>
<th>TEHNOLOGIST</th>
<th>PRODUCTION PLANNER</th>
<th>TERMINER AND ORGANIZER</th>
<th>CLERK FOR COOPERATION</th>
<th>TECHNIQUES OF WORK</th>
<th>PRODUCTION STATISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCOPES OF WORK</td>
<td>SUPervision of PERformed OPERational PRODUCTION PLANS</td>
<td>ANALYSIS OF EXPLOITATION RATE OF PRODUCTION CAPACITY</td>
<td>DRAWING UP OPERATION PLANS, MATERIALS, TOOLS AND EQUIPMENT AND WORKER SO THE NUMBERS AND TRAINING STRUCTURE</td>
<td>DRAWING UP PRODUCTION SCHEDULES OPERATIONAL PLANNING OF FACILITIES</td>
<td>PARTICIPATION IN THE FORMULATION OF OPERATIONAL PRODUCTION PLANS</td>
<td>PARTICIPATION IN DRAWING UP THE OPERATIONAL SCHEDULER OF PRODUCTION</td>
<td>RECORDING AND MONITORING THE PRODUCTION FACILITIES AND PRODUCTION ACHIEVED</td>
</tr>
</tbody>
</table>

10.7.4 Linear responsibility chart

Linear responsibility chart is a special version of the graphic matrix methods developed in the American companies.

We distinguish vertical and horizontal linear responsibility chart. Vertical linear responsibility chart illustrates the organizational structure, content and business function and their operational responsibilities. A horizontal linear responsibility chart help us to analyze the process and distributing the responsibility for implementing these procedures. Linear responsibility chart is composed of tasks' holder, tasks, relationships and responsibilities and the type of symbols (Ivanko, 1992, p. 226).
In the head of the chart are arranged all the major tasks’ holders. Distribution of leading associates in the head of the chart contains elements of the organizational pyramid-based schemes. Names of the tasks’ holder we write and spread so as to be easily visible level positions.

On the left side of the chart indicate the activity, but only those that assist in further analytical procedure to define the powers and responsibilities of managers. Activities are grouped into categories and subcategories, which facilitates the analysis. For the implementation and use of linear responsibility chart are important accurate, complete, and descriptions of the tasks set by mutual consent.

The room in the chart is mainly used for inserting graphic symbols of responsibilities, marking out a differentiated responsibilities of each partner in relation to a particular activity. In each field can be entered a specific graphic symbol. In the liner responsibility chart, we do not primarily describe the task of individuals, but we are interested in defining the degree and extent of the impact of the individual to effective implementation of individual activities. If this effect is properly oriented, will be all done in the context of a particular impact on the conduct of activities properly. It is also important proper coordination between the claimed effects of all those colleagues who have included the impact of organizational responsibilities in the workplace.

Type of liability in the field of linear responsibility chart refer to as conventional symbols, which may be graphic or letter. American researcher S. A. Birn used graphic symbols, which are shown in the table below.

Table 10.2: Graphic matrix symbols by Birn

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Work is performed</td>
</tr>
<tr>
<td></td>
<td>General supervision</td>
</tr>
<tr>
<td></td>
<td>Direct supervision of implementation task</td>
</tr>
<tr>
<td></td>
<td>Supervision with coordination</td>
</tr>
<tr>
<td></td>
<td>Decesion making powers</td>
</tr>
<tr>
<td></td>
<td>Mandatory consultation</td>
</tr>
<tr>
<td></td>
<td>Mandatory consultation of the completion of activities</td>
</tr>
<tr>
<td></td>
<td>Exchange of views</td>
</tr>
</tbody>
</table>

Linear responsibility charts can be summarized on a sheet of paper wealth of information. The advantage of linear responsibility chart is also in the fact that its components are easily changed. The advantages of linear responsibility chart are:

- simple and quick implementation of the review organization;
- analyst can use the network chart to record information received by the recording, and uses the symbols;
- a simplified overview of the leading people of the entire distribution of tasks, which may be many decisions faster, clearer and firmer;
- localization of organizational error, a chart that you create before the organizational transformation, alert attention to errors in each organization, overlapping responsibilities, which are not specifically
identified, the authority which is not consistent with the scope of responsibility;
• facilitate the implementation of changes in job tasks and responsibilities among senior staff;
• analysis and improvement processes; chart can be used for rough, but fairly quickly and accurately
  analyze of a particular business process, which goes through several organizational units;
• new are leading people with the chart can be quickly informed of the exact extent and distribution of
  their responsibilities.

Linear responsibility chart is used primarily as a means of analysis of the organization and as a means to
  teach managers formally set the actual relations between members of the organization.

Linear responsibility chart in comparison to the work distribution chart is for the organization of more an
organizational strategic importance. It does not go into the details of the analysis and distribution of tasks,
but seeks to show organizational relationships primarily at people who are important to the whole business,
so it is suitable for analyzing and designing complex organization to define the responsibilities of executives
and managerial tasks.

In defining the tasks of tasks’ holders torelations for business activities, the linear responsibility chart caters
to more general, standardized definitions, while the work distribution chart describes the activities of these
relations more precisely - verbally. The distribution chart of activity is suited for detailed analysis and design
of distribution tasks within the individual organizational units.

To facilitate understanding of the problems associated with assembling and using a linear responsibility
chart, a fragment of example of such a chart for the sales function, which was composed specifically for the
concrete organization is represented in further discussion.

Fragment of linear responsibility chart is shown in table 10.2.

Table 10.2: Fragment of linear responsibility chart

<table>
<thead>
<tr>
<th>Tasks of sales function</th>
<th>Media sales business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>18. Sales planning</td>
<td></td>
</tr>
<tr>
<td>19. Conclude sales contracts</td>
<td></td>
</tr>
<tr>
<td>20. Dispatch of products</td>
<td></td>
</tr>
<tr>
<td>21. Study of distribution channels</td>
<td></td>
</tr>
<tr>
<td>22. Scheduling of transportation</td>
<td></td>
</tr>
</tbody>
</table>
10.8 A complex matrix method of organizational design

10.8.1 Breakdown of the common tasks of the organization

Task as a baseline for design organizational model

Before going into complex design of the organizational model, we analyze the common task of the organization to a level that enables the design of macro-, meso- and micro-model of organization. A breakdown of total business we get the review of specific tasks to be undertaken within the organization. Analysis and breakdown of the total business on the necessary elements do not represent the design model for the organization, but it is only necessary to advance task to successfully complete the design because of the design models are classified tasks to individual operators.

At parsing of the common tasks we must follow the organization’s objectives. Set goals, the organization implement of its common task. A common task in the organization provides all measures to make it out. It is therefore common analysis tasks starting point for drafting or transform the organization.

Execution of common tasks is a common technical goal of the organization. Results of the implementation is achieved economic impact on the market. The common task of the market we need to perform number of organizational procedures. The final objective of the organization requires execution of individual tasks. Performing these tasks is to ensure economic activity and the existence of the organization. Common tasks of the organization not only defines the executive technical goal. The task of achieving the effect on the market involves a number of preliminary and parallel tasks. Common task of the organization consists of several partial tasks to determine the breakdown of the common tasks. The common task of the organization is therefore web of many partial tasks. Partial tasks with a common task can be compared with the induction process, starting from the impact of the market as a final task, since each partial task results (induced) by its continued, the previous and subsequent individual tasks (Kosiol, 1972, p. 9). With the implementation of the final tasks of the market logic and deductive perform any other related tasks induced individual.

The task is understanding as setting a target of rational human action (Kosiol, 1972, p. 10). Each task is a request that is directed towards people that this is done. For the task is specific (Kosiol, 1972, 10):

1. implementation process, which may be spiritual or physical nature;
2. object on which the requested activity or work performed;
3. resources needed to carry out the task;
4. space where the task is performed;
5. time at which the task is performed;
6. bearer as a key element.

10.8.2 Introduction to the analysis and breakdown of a joint task

The common task is the basis for organizational model design. Model can be built only if the joint task are broken down into individual activities in such detail that they are able for the classification to task’s holders, workplaces, departments, sectors, organs, etc. Breakdown of the common tasks can be done using different bases. The most commonly used basis for the breakdown of the common tasks is implementation of process. Partial tasks, which can be tested on this basis, define each phase of the process. By using the process as the basis for the breakdown, we can not identify all the individual partial tasks, in particular, not tied to the sequence of implementation. Such tasks that we perform in parallel with the processes work, and also those that we have to perform for internal or external environment are numerous in each organization. Therefore many authors stress the need to take into account of several bases for the breakdown of total task to partial tasks. Thus, for example, Riester recommends implementing process and object as the basis for classification, while Nordsieck states the purpose of the organization as an important basis for the breakdown of common tasks (Babic, 1976, p.116).
Most bases or principles for the layout of the common tasks of the organization to partial tasks recommends E. Kosiol (Kosiol, 1972, p.14), namely:

- the implementation process;
- object subjected to a process;
- the degree as a basis for differentiation of partial tasks related to decision-making and implementation;
- phase as a basis for classification, according to the labeling and identification of the tasks associated with planning, implementation and monitoring;
- purpose as a basis for distinguishing external, primarily induced partial tasks and induced from secondary endogenous tasks.

Kosiol emphasizes the need for horizontal simultaneous use of all of those bases in the breakdown of common tasks to individual activities. These bases are the theoretical design methodology for the breakdown of common tasks. At breakdown of the common tasks each split task should be clearly identified and defined by all those bases, but must be included in the composition of common tasks.

For constructive organizational design should be analyzed the breakdown of the common tasks and to achieve that every part of the task to characterize and identify each of the five criteria of classification, since the partial task analysis identified only (Kosiol, 1972, p. 28):

- when the determined implementation of all processes;
- when determined all objects of;
- when it is clear to what extent it is necessary to make decisions for other tasks’ holders;
- when in a common task are delineated tasks of planning, implementation and monitoring;
- when are identified part of the exogenous and endogenous relations at each task.

10.8.3 Classification of tasks

Classification tasks mean necessarily, but entirely different task compared with analysis and breakdown of the common tasks. Differently because it is based on the synthesis, which is the opposite process of breaking down (Babic, 1967, p. 126). Synthesis has important role in the process of creating a constructive organization. The ultimate goal of classification of partial tasks is a concrete forming structure of organization, which is achieved by sorting the tasks and their transformation into concrete work assignments for individuals and group of tasks’ holders.

The creation of organizational units

Jobs are classified and linked into organizational units, which represent a narrower or wider segments of the organization. Organizational unit must develop in each major organization. This should be done wherever there are so many tasks within the organization which by an individual person can no be longer effectively managed and organized. Then comes a turning point in the system of work as specified by Sorrell and other authors i.e. departmanization (Babic, 1976, p. 132). Departmanization is an English term derived from the” Department”, in organizational terms, it denotes a specific area of work.

Important principles for the classification tasks and their holders

Classification tasks and their holders is highly dependent on the choice (type) of organization structure. Each type of organization structure provides a rough way of the distribution tasks and partial integration of their bearers. Global distribution and the distribution of tasks according to the type of organization structure is not sufficient for detailed and accurate aggregation of many and varied activities and link their jobs to the appropriate organizational unit, so the authors propose a number of different bases, principles or rules under which the partial tasks easier joint and their associated holders. Different authors suggest different bases or base grouping.
Because the correct application of rules or principles of classification tasks, and holders can be a useful basis for structuring, we will briefly state some important principles:

1. objective unit wants to achieve;
2. the process by which activities are carried on;
3. satisfying customers or handle all types of material;
4. space in which processes take place;
5. similarity task;
6. relationship or conditioning task;
7. predominance of the use of output or parentage;
8. special interest;
9. separation of tasks;
10. autonomy of work,
11. special attention;
12. span of control or coordination number.

For each organization we should address the it’s macro-, meso-and micro- model of organization. Definiteness of these concepts depends on the complexity of organizations, therefore macro-model of organization into a single organization with a single system of work is something else than into the aggregate organization of more organized systems of work, or parallel or complementary economies.

Elements of business are interrelated and interdependent. To determine the association and dependencies can be usefully employed graphic matrix symbols. Based on their review, developed by Nordsieck and Birn aggregated (Ivanko, 1992, p. 223-227), we can set up our own system of graphic matrix symbols for step distribution of elements in the organizational base and identify types, roles and responsibilities of jobs on all organizational levels and business units in the performance of individual tasks. The symbols used are shown in table 10.4

All relations among the activities and their holders must be organizationally regulated by means of organizational rules and regulation.
<table>
<thead>
<tr>
<th>Symbol</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initiative</td>
</tr>
<tr>
<td></td>
<td>Professional preparation</td>
</tr>
<tr>
<td></td>
<td>Common treatment</td>
</tr>
<tr>
<td></td>
<td>Decision-making</td>
</tr>
<tr>
<td></td>
<td>Planning of execution</td>
</tr>
<tr>
<td></td>
<td>Performance</td>
</tr>
<tr>
<td></td>
<td>Intermediate supervision</td>
</tr>
<tr>
<td></td>
<td>General supervision</td>
</tr>
<tr>
<td></td>
<td>Supervision with coordination</td>
</tr>
<tr>
<td></td>
<td>Obligatory consulting</td>
</tr>
<tr>
<td></td>
<td>Obligatory informing</td>
</tr>
<tr>
<td></td>
<td>Exchange of opinion</td>
</tr>
</tbody>
</table>
10.8.4 Macro-organizational model design

Macro-organizational model should be designed with consideration of all factors relevant to the work and business of organizations. It is based on a specific model of targeted tasks. Macro-organizational model from a static perspective, is the fundamental structure of joint operations by business complexes and the fundamental organizational units. At the level of macro-organizational model we put the question, which tasks are performed directly in the core business units and which will perform at the level of professional services. Responsible asters of these bases must agree about appropriated distribution of partial tasks. This distribution depends on the strategic concepts of operations and compliance of a number relevant influencing factors.

10.8.5 Meso-organizational model design

Meso-organizational model is a reasonable arrangement with elements of business tasks and the delimitation of competences and responsibilities and organizational arrangements for the mutual relationships between organizational units within macro units and bodies responsible for management process of organizational units, which are in any interrelated and interdependent.

Assume that we in macro model identify all the tasks performed by the individual production units and professional service. Nature and scope of the tasks defined for the individual production units and professional service are the basis for drafting theirs’ meson organizational model. For example, we will design meso-model for a production business unit. Given the overall level of the tasks identified in macro organizational model we design in the production business unit (PBU): departments, plants, technological lines, working groups etc. Organizational units in meso-organizational model must be designed so that they can set goals and measure performance. Assume the following meso-organizational structure of the mentioned production business units:

1. management body
2. administration
3. Head of PBU,
4. operational preparation,
5. production departments,
6. working group.

Defined tasks for the current PBU we classify them among meso-organizational units and define the type and level of responsibility for particular tasks. Using mentioned symbols we will shown the range of business element “of an annual production plan”, which shows the simplified table 10.3.

*Table 10.3: Matrix of meso-organizational unit for PBU*
Suppose that in the present organization each production unit is responsible for the preparation of its annual production plan. For this common operational tasks is charges the unit of production preparation. In drawing up a draft plan operational preparation should be required to consult the production departments, but it can also exchange opinions with production working groups. The leader of this unit is responsible for supervising and coordinating common tasks associated with preparing the annual production plan of PBU. Administration of PBU discusses the draft plan of PBU. The draft of annual production plan adopt the manager after consideration of the special committee. Following the same procedure we can delimit responsibility and accountability for each element of the business for each organizational unit.

### 10.8.6 Micro-organizational model design

Micro-organizational model is a wise allocation of tasks upon the various work posts within the specific organizational unit, and aligned organizational structure and relationships among their jobs and jobs in other organizational units which are interconnected in any way.

The final goal of any design or redesign of the organization is a project design micro organizational model. The overall level of performance of the tasks along the vertical columns in the previous table (quantity and quality of implementation) is used to determine the jobs of the organizational unit, designed to mes0 organizational. To determine the number of jobs and their skills we should take into in particular consideration the following criteria:
- the extent of task,
- frequency of occurrence of tasks,
- complexity of the task and,
- similarity of the task.

We will show the nature, role and level of responsibilities of individual jobs in the operational preparation unit for business “element of an annual production plan”. Assume the following posts in the operational preparation unit:
1. Head of operational preparations,
2. Planner,
3. Designer,
4. Technologist,
5. Clerk and statisticr.

After determining the number of posts in organizational unit, we have to determine the type and level of responsibility of each job at each task. For the previously mentioned operating element “of an annual production plan” we will show this in table 10.

**Table 10.4: Matrix of micro organizational unit**

<table>
<thead>
<tr>
<th>BUSINESS ELEMENT</th>
<th>HOLDER OF TASKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HEAD OF OPERATIONAL PREPARATION</td>
<td>PLANNER</td>
</tr>
<tr>
<td>1. COMPOSITION OF ANNUAL PLAN</td>
<td>X</td>
</tr>
<tr>
<td>2.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>n</td>
<td></td>
</tr>
</tbody>
</table>
The basis for the description of jobs are defined responsibilities of each post along the vertical columns in the previous table. The total volume of tasks along the vertical columns in the previous table is the basis for drawing up the descriptions of jobs. Interconnection between tasks by rows or columns is determined by the dependence of jobs from other jobs within the organizational unit. The third dimension in the drawing up descriptions of jobs we find so that find users the work done in every work post. Each work post must therefore be described in terms of three dimensions:

- what the employee has to perform in his or her job,
- from where gets the necessary support, data and information and
- to whom reports the results of his or her work.

Job descriptions under those dimensions are the nature of organizational rules and instructions for work.

**Review question**

1. To design and transform the organization use different terms. What terms are most frequently used and what they mean?
   How would you define organizational design?
2. When designing the model structure using different strategies. What strategies differ and what are their characteristics?
   On the design of the organization are affected by many factors.
   Explain the impact of environment on organizational design!
   How does the technology affect on organizational design?
   What is the impact of information system in organization design?
   How and why we must consider the life cycle stages of the organization, when designing the organization?
   What are the characteristics of the mechanistic model for the organization?
   What are the characteristics of the organic model of organization?
3. Results of the organizational design is the model structure.
   Why are we talking about the model structure and how should it be defined?
   Organization design is performed according to appropriate procedures.
   What models of organization design processes differ and what are their characteristics?
   When designing the structure using suitable methods.
   How would you define a method of organizational design?
   How to use the classic method of organization design?
   When and how to use the methods of operations research in the design of the organization?
   How to use the method of systems engineering in the design of the organization?
   When and how to use the system analysis in the design of the organization?
   What are the characteristics of complex analytical methods, and how would you use in designing organizational models?
   Describe the graphic matrix methods!
   When and how to use the table of distribution activities?
   How to use a linear responsibility chart?
4. Describe the characteristics of a complex matrix methods of organizational design?
   How would you define the task and what functions different?
   What is the difference between task and work?
   What basic analysis and breakdown of the common tasks proposed Kosiol?
   Perform case analysis and breakdown of the common tasks of the selected synthetic task!
   What is the essence of a complex approach to analyze and breakdown of the overall mission?
   How would you define a business function?
   How and on what basis to implement the classification of business functions for the selected organization?
   Select business functions for a specific organization or conceived using systemic methods!
   Define the business scope and basis for their determination!
   What is the element of the business and how you conclude?
What is the working process and how we find it?
What are the important principles used in assessment tasks?
How do we design a macro - organizational model using complex matrix methods?

References

11 20 KEYS TO WORKPLACE IMPROVEMENT

11.1 Introduction to 20 keys to workplace improvement

In general, reengineering refers to advances in management, however it is not a particular method but rather the trial-and-error process applied at various companies and consulting firms.

To survive in an industrial world, “factory revolution” aiming toward higher productivity and stronger company has become a necessity for stable, long-term development of manufacturing companies (Kobayashi, 1995). Since the economic environment of nowadays is undergoing a rapid change, managers need to define a standard for evaluating corporate strength according to responsiveness of their companies to rapid change. In order to identify such a standard they must have specific means of evaluation and specific items that can be improved.

Except for looking at company’s plant investment commitments, company responsiveness evaluation requires also judging how strong and stable a company can remain while weathering change. In addition, it requires recognition of key priorities at every level of the company.

During more than four decades of guiding numerous companies through the process of change and improvement, Kobayashi developed the approach called PPORF (Practical Program of Revolutions in Factories), whereby the primary feature is a scoring system for evaluating manufacturing strength known as the “20 Keys Five-Point Evaluation System” (Kobayashi, 1995).

The 20 Keys system brings the world’s manufacturing improvement methods together, moreover, it integrates these separate methods into a closely interrelated whole what results in synergistic effect. The PPORF approach integrates 20 most significant methods for “revolutionizing factories” into one balanced whole that can be implemented rationally and effectively. Making progress in one key automatically ties with progress in other 19 keys, because the 20 Keys are interrelated. Thank to synergistic effect, improvement in one key brings progress in many other keys as well.

The 20 Keys approach begins by ranking the workplace on five-level scale, with level one belonging to the worst workplaces and level five to the best, in order to form the standard by which subsequent improvement is measured.

Companies are not compared one versus others in the same industry, but rather one company versus others in all industries throughout the world. Indeed, the highest-ranking companies in terms of quality, costs and delivery (QCD) have reached very high level, however, even some of these companies are constrained by lack of clear vision of what it takes to satisfy customers.

In global, 20 Keys system combines a QCD approach with a customer-focused approach to create hit products and world class manufacturing quality. In contemporary industrial world, when a company introduces a new product, within six months or a year similar competing products will be on the market. Since 20 Keys approach enables improving manufacturing processes and shortening development periods, the company can move ahead the way that other competitors will not be able to catch up.

“The 20 Keys program is a way to make footholds all the way to the top of the manufacturing mountain, integrating the keys in a way that facilitates your company’s ascent to the three pinnacles of manufacturing quality: Better, Cheaper and Faster” (Kobayashi, 1995, p. 5-6).

In fact, the 20 Keys program lays a foundation that makes existing management goals easier to achieve and more likely to be maintained over time, thus, managers do not have to be worried, if the program causes confusion in goals or that taking all the 20 keys would be too hard or even impossible. Moreover, it can be
implemented as mid-range business plan aimed towards specific strategic goals and the program helps fully achieve tactical goals as well.

Instead of treating term-specific goals as tactical goals and thus separate objectives, the 20 Keys program deals with them as with strategic goals and integrates them in overall strategy.

All 20 Keys relate somehow to the issue of safety, therefore companies that attempt to minimize safety hazards should understand the program as absolute necessity and the causes of injuries like “happened due to dirt and disorganization, occurred when defective goods were being produced, or occurred under strenuous work conditions” (Kobayashi, 1995, p. 7) should be eliminated thank to more safety-conscious approach of a company.

Managers realize that the best way to improvement is an integrated approach that focuses on improving more than one factor at a time. The 20 Keys system is an important benchmarking and improvement method that offers a way to examine and systematically improve the strength of a company by focusing on 20 different but interrelated aspects. The efficiency of 20 Keys lies in its adoption as a fundamental way of managing the workplace and is only truly understood through dedicated and committed application.

Although organizations have over the years implemented improvement methods, many of them were applied individually with no lasting result. Approaches such as quality control, team activities and setup reduction rarely changed the fundamental character or capability of an organization. CEOs of leading international companies realized that an integrated approach is needed that focuses on improving more than one factor at a time. They recognized the importance of synergy between different improvement efforts and the need for commitment at all levels of the company to achieve total system improvement.

The 20 Keys approach offers a way to systematically improve the strength of organizations, one step at a time, by paying attention to 20 different but interrelated aspects. An important feature of the method is the benchmarking system, which is introduced as a significant part of the 20 Keys philosophy in measuring organizational strength. We present benchmarking results from selected companies as well as one company’s results achieved through the adoption of the 20 Keys philosophy.

11.2 Benchmarking

“Benchmarking is defined as the continuous process of measuring ones products, services, and practices against the toughest competitors or those companies recognized as industry leaders. It also includes search for the best industry practices that will lead to superior performance” (Petrarolo). The process of benchmarking usually consists of following steps:

- Gaining knowledge of ones own operations, for example understanding ones strengths and weaknesses.
- Gaining knowledge of the external market by researching other companies. Some useful ideas and techniques from other companies may be adopted.
- Establishing performance targets based on the knowledge gained.
- Directing one’s efforts on the established best operating characteristics.

Hence benchmarking is a tool to identify, establish, and achieve standards of excellence that are based on the market reality. Benchmarking makes companies become competitive, thereby providing advanced thinking leading to nonlinear improvements in performance.

10.3 The 20 Keys to workplace improvement

The 20 Keys to workplace improvement were developed by Professor Iwao Kobayashi of the Practical Program of Renewal in Factories Institute in Japan (Petrarolo). The method has been implemented in several hundred Japanese companies and has spread to the West through South Africa.
According to Kobayashi, managers need to determine to what degree their companies can rapidly respond to change, and to take such responsiveness as a standard for evaluating corporate strength. They need specific means of evaluation and specific items that can be improved to have such a standard. To make the company stronger, managers must know how to improve items that assessment shows require improvement. Hence, a systematic approach to managing a workplace is required to:

- identify the underlying causes of problems in behavior in organization environment by ensuring a holistic understanding of the operating system, and
- develop and evaluate particular steps in bringing sustainable improvements to actual problematic situations.

The 20 Keys approach provides such a systematic system by bringing together and evaluating the worlds workplace improvement methods by integrating these separate methods into a closely interrelated whole with synergistic effects.

The 20 Keys system defines 20 characteristics making companies stay flexible and adaptive. Each category has a five-point scale, using level one for the most primitive and level five for the worlds most efficient. Many companies have reached considerable results in certain categories, however, no company is known to have achieved a perfect score in all the categories.

At the beginning of a program implementation organizations usually find out that they score between 25 and 35 points out of a possible 100. Based on experience it is possible to improve by about 20 points over a three-year period, resulting in:

- significant productivity improvement, usually doubling output per work-hour,
- significant quality improvements (two to tenfold)
- reduced cycle times,
- improved safety and morale.

20 Keys relations diagram highlights the four pillar keys on the outside and the significant position of each key in relation to other keys around quality, speed, and cost objectives. However, the primary feature of the system is a scoring system for evaluating organizational strength, the well-known 20 Keys five-point evaluation system.

Kobayashi uses an analogy of bean sprouts growing toward their full potential and emphasizes thereby the systematic nature of the 20 Keys. Single bean sprouts grow toward the goals, but if they are not supported by growth in other areas of business as well, they are not strong enough and collapse at the first sign of turbulence.

For example, if there is a single-focused initiative such as inventory reduction, management can decide to hold less stock and reduced batch sizes. However, if this is done without supplier involvement, addressing set-up times, looking at doubling issues or scheduling implications, the company may not achieve the intended benefits.

Sometimes performance may even deteriorate. The 20 Keys help the company evaluate its progress in each of the keys that supports such an initiative in the most appropriate and evolutionary way. When a coherent package of change is implemented, the fundamental character and constitution of the company is strengthened and the goals are achieved under most conditions.

### 11.4 The benchmarking process

Since the level of understanding required for each key varies to some extent, to illustrate the benchmarking process, the most readily understandable key has been chosen, thus, key 1 - cleaning and organizing.

Besides the elements of the well-known Japanese 5S approach, it contains simple ergonomic tools such as the Australian modular arrangement of predetermined time standards (MODAPTS) to illustrate what it
means to make work easier. Common “housekeeping” approaches are normally driven top-down unlike key 1.

In this case, employees are motivated to perform cleaning and organizing tasks, because common awareness and understanding is easily created through implementation. The 20 Keys start and end with key 1, since is one of the foundations for success in all other 19 keys. In addition, it is the easiest key to understand and relate to and is therefore useful in introducing the five-point scale used in the rest of keys.

The benchmarking feature is an important part of the improvement process by implementing 20 Keys. If employees are aware of company’s position in relation to world best practices, a true feeling of competition developed on every level, and everyone becomes involved in their efforts to improve (Kobayashi, 1995). However, the most important feature of the 20 Keys is the philosophical systematic approach to improvement and we focus mainly on benchmarking approach.

By self-benchmarking a facilitator plays a crucial role in describing the characteristics of each level and obtaining consensus with regard to an overall score. In order to obtain an initial score, all levels in a company should participate in one of two ways:

- Separate benchmarking sessions with different levels within the organization should be held, for example top management, middle management, front-line management, front-line employees. The scores are then aggregated by group to obtain an overall organizational score.
- A single benchmarking session with representatives from each section and each level of the organization should be held. This is usually effective, however, in some companies distortions occur because subordinates are afraid to be honest in presence of their superiors.

There are managers who have worked for a long time with the 20 Keys and who have undergone the necessary training will use the check sheets provided for each key by benchmarking their company on a regular basis (Petrarolo). Another strength of the 20 Keys method is that each of the five levels for each key is represented by a picture or of the status in which the company could find itself. This illustration makes it easier for individuals to make a decision for their environment.

In order to facilitate the scoring process, individuals may only choose among five levels and in between scores. However, the final aggregated score can contain fractions. For example, if it is believed that an environment or workplace is somewhat better than the worst level (1), but not quite a standard of a level 2, then 1.5 points are judged.

Action that are required to move from level 1 to level 2 are typically described as the following:
- Clear all floors of unnecessary items
- Place nothing directly on the floor.
- Examine the workplace and eliminate all waste and nonessential tools and material. Dispose of as much waste as possible and remove non-necessary items.
- Recognize employees who are putting an extra effort into the cleaning and organizing process.

10.5 Limitations

As the 20 Keys system is being adopted around the world, many practitioners, researchers and academics provide further input and criticism to gain a better understanding of this useful and important management tool. At this stage, the following problems appear to be the most significant and frequent:
- The role of the facilitator. By benchmarking an organization for a first time, the facilitators role is critical in explaining and describing the characteristics of each level for every key and in facilitating the process at arriving at a consensus score. Companies that use the 20 Keys only as a benchmarking tool will be dependent on the ability of the facilitator. On the contrary, companies that implement the full 20 Keys program are less relying on a competent facilitator since their knowledge and understanding of the benchmarking system is implicitly achieved in the systematic implementation process.
• Relative measures. Some of the criteria described in certain keys are not consistent with the characteristics for each level. For instance, a criterion for a level 3 in key 11—quality assurance system, is that “the defect rate has been reduced by at least half”. Obviously, this criterion is relative to the starting base, thus, some additional clarity is required for these criteria.

• Correlation error. There are situations when even the best facilitator is unable to obtain an acceptable self-evaluation for a given group. This problem can easily be identified by the systematic nature of the 20 Keys and interrelations between them illustrated in the bean sprout analogy.

The bean sprout analogy described above implies a high correlation between all of the keys. Therefore, if a low score is reached with a particular key, it is unlikely that much higher scores will be achieved with other keys. For example, if a score of 1.5 is achieved for key 1—cleaning and organizing—it will be unlikely that the company has rating of 3.0 for key 9—maintaining machines and equipment. A level 1.5 company in key 1 has not achieved an environment where employees have taken responsibility for their workplace and machines by painting and cleaning their equipment.

This also affects many of the criteria that assist with the maintenance process in key 9—dealing with ownership and responsibility of equipment. Poor cleaning is considered one of three evils of equipment abuse and the cleaning process often acts as an inherent audit of equipment status. On the other hand, if high scores are recorded for certain keys, this will imply high scores in other keys as well. For example, if key 5—quick changeover technology has a high score, this implies that key 1—cleaning and organizing is also of a high score, since performing quick changeover relies on:

• proper and organized storage of change parts,
• organization of tools,
• understanding of ergonomic issues, and
• other preparation activities necessary for effective changeovers.

The standard deviation for the 20 Keys score can be used in determining whether the benchmarking process has achieved an acceptable score for the bean sprout effect. As a company achieves higher scores for each of the 20 Keys, the criteria required focus more heavily on achieving the bean sprout effect and hence the correlation between the keys becomes more evident. However, consistently high scores for each of the keys may indicate a steady evaluation in terms of the bean sprout effect, these may be nevertheless overstated.

A correlation test can be devised to assist with the benchmarking process, however Kobayashi does not focus on the statistical validity of the process, since his focus is on self-benchmarking for the sake of continuous improvement. The benchmarking system helps companies orientate where they are, where they want to be and find detailed steps of how to get there.

11.6 Benefits

There are several noteworthy benefits of the benchmarking system:

• In spite of the fact that the 20 Keys embrace world-class philosophies and criteria within a predefined framework, previous improvement initiative undertaken by a company can be evaluated in terms of their effectiveness in having strengthened the company’s constitution. For instance, if a company has implemented a performance management system that cascades the strategic goals of the managing director through all levels with associated performance measures, the effectiveness of this effort would be evaluated in terms of its contribution to the advancement of key 2—rationalizing the goal alignment.

• The benchmarking system is not industry-specific and it takes into account particular industry advances and areas where an industry is behind other industries. This generates improvement ideas, moreover, the breadth of the 20 Keys allows to recognize areas where progress has been made.

• The benchmarking system is easily understandable, even though some of the quality assurance and industrial engineering concepts may only be readily understandable at management level, the detailed improvement steps allow the shop level to progress toward an understanding in an evolutionary way.
11.7 Case study

More than half of the companies we consider were benchmarked and are currently implementing the 20 Keys program and many are either about to initiate the program or are considering its implementation. Only a few companies claim that they have decided to pursue their own initiatives. A number of Japanese companies have achieved a score of 65 (for which a bronze prize is awarded), while a handful have achieved a score of 75 (for which a silver prize is awarded). Only one Japanese company is close to reaching a gold award, requiring a score of more than 85 (Petrarolo).

The most significant 20 Keys benchmarking exercise undertaken is by South Africa Breweries – Beer Division (SAB), which started the 20 Keys implementation in 1994. Since then, SAB has conducted two benchmarking evaluations for all its primary packaging suppliers. The two evaluations were conducted with difference of two years, with the latter being completed in March 1997. Not all of suppliers benchmarked in round 1 were benchmarked in round 2, since they ceased to be suppliers for various reasons.

Many supplier plants benchmarked themselves lower during the second round, because of improved learning and understanding of the 20 Keys, thus benchmarking scores had been quite optimistic during the first exposure to the system. The bean sprout effect also seems to be more claimed during the second benchmarking round.

One or two companies attempted to overstate their scores, what caused some harm to an important supplier partnering relationship that relies on their trust and honesty. Experienced facilitators can easily determine overstated scores, if they ask for evidence to explain these.

A few companies had worked hard at improving their organizational strength with significant success.

The 20 Keys method is a valuable benchmarking and improvement approach. It is a systematic, integrated, and synergistic philosophical approach, however, it should not mislead audiences to believe that it is merely a framework that integrates known world-class practices or that it merely states the obvious of good management practices. The two books written by Iwao Kobayashi provide some information about the benchmarking criteria and the approach required, though, the philosophy requires knowledge of its true potential. Since the power of the 20 Keys lies in its adoption as a fundamental way of managing the workplace, it is only truly understood through dedicated and committed application.

Regarding the benchmarking element of the approach, it offers employees a tool to visualize improvement steps in a simple, logical and concrete manner. For management, it offers a measure of the overall strength of the organizations constitution or capability. In spite of some limitations, the 20 Keys has proved to be an important tool as an indicator of organizational strength.

The benchmarking results from selected South African companies imply that there are considerable possibilities for those companies wishing to achieve world-class status.

11.8 Implementing the 20 Keys

With use of 20 Keys method companies can quantify their current level in each key and perform corrective actions to get to higher levels. At this point, we would like to emphasize the importance of the synergistic effect of these 20 Keys and how the keys can be implemented in various combinations and sequences for greater effect.

The 20 Keys method is a practical program for synergistically combining improvements in various interrelated keys so that company can produce high-quality products more quickly, inexpensively and easily than ever before (Kobayashi, 1995). The 20 Keys system shows the company how to tailor a practical implementation program to suit its own needs and conditions with the overall objective to undergo a factory revolution in productivity doubling, lead time halving, elimination of quality complaints and so on.
No matter whether the company uses mass-production or a wide-variety, or what industry or country it is in, it can revolutionize itself by implementing 20 Keys program. The method can be applied to non-manufacturing activities like product planning, development, design, sales, product servicing and various kinds of management activities as well.

Key 1 (cleaning and organizing), key 2 (rationalizing the system/management of objectives), key 3 (improvement key activities) and key 20 (leading technology/site technology) constitute the four outside corners of 20 Keys Relations Diagram because of their role of fundamental building blocks of the 20 Keys system.

Key 1 (cleaning and organizing) is the start of everything, however, the program not only starts with key 1, but it returns to it for reevaluation after the company has made some progress in other keys to make sure that the fundamental support of cleaning and organizing is being maintained.

The main function of key 2 (rationalizing the system/management of objectives) is to help managers and shopfloor supervisors unify their approach and align their direction in pursuing objectives. This essential function remains the same no matter what combination of keys company uses.

“Key 3 (improvement team activities) is fundamental as the mechanism by which all employees join forces to strengthen the factory’s manufacturing quality by pursuing improvement goals” (Kobayashi, 1995, p. 216).

Key 20 (leading technology/site technology) underlies all the other keys as they are tied with improvement in leading technology or site technology. On the other hand, improvements in key 20 support improvements in all other keys.

All keys are related to the central theme of strengthening manufacturing quality, which is shown in centre of diagram circle. In addition, all the 20 Keys are interrelated and all serve as footholds on the way to success.

The order in which 20 Keys are implemented and the target levels in each key may differ according to where the factory is currently weakest or where it most wants to stress improvement, such as in reducing quality complaints, shortening production time or doubling productivity to lower costs.

### 11.9 Flow and Progress of 20 Keys Implementation

In general, implementation of 20 Keys programs suited to needs of a company is a medium-term plan lasting about three years. It progresses through the following steps of implementation (Kobayashi, 1995):

- **Preparation.** At this stage, company studies the 20 Keys program and begins implementing key 1 (cleaning and organizing). The company performs a preliminary evaluation of its current levels. Even during this preliminary stage, it is possible to make considerable progress by making substantial improvements.
- **Introduction.** This stage usually corresponds to the first year of program implementation. Everyone learns the features of 20 Keys method and integrates the approach in daily routine.
- **Promotion.** This stage generally corresponds to the program’s second year. 20 Keys techniques and skills are integrated with all production activities and employees fine their techniques by pursuing ever more ambitious improvement activities.
- **Full development.** 20 Keys improvement activities and techniques are a solid part of corporate culture and have helped the company reach the goal of doubling productivity.

### 10.10 Self-Evaluation

People tend not to think about ways they could change things to build manufacturing strength after a factory has been running its production in a certain way for a long time.
The first step of revolutionizing a company is to define its position in relation to its competitors around the world. Thereafter a company is able to make short-, medium- and long-term plans for making improvements and reaching goals.

Organizations are often reluctant to admit areas where they are inferior to their competitors in the same country or region, what makes it difficult to get an accurate self-evaluation. Therefore companies should compare themselves not to their local competitors but rather to companies operating in all industries all over the world.

Benchmarking is the way to become more aware of own weaknesses and to get more motivated to overcome them. When everyone suddenly becomes conscious of the need for improvement, the enthusiasm for a change and improvement that arises is surprising.

Even though the 20 Keys program is primary developed for manufacturing companies, it can be applied to any kind of enterprise. The meaning of numerical scores must be adjusted according to needs of particular factory or other workplace. After defining these scores due town circumstances, progress should be started in one-point or half-point increments. Definitions should be periodically reviewed and after gaining experience in implementing the 20 Keys system it is easier to define own scores and to understand and achieve objectives.

The overall objective for every company is to make a progress step by step, working toward the twofold goal of raising the total score by 20 points and doubling productivity. The result is transformation of the company into a strong, change-adaptive organization.

### 11.11 Conclusion

In order to survive in today industrial environment companies need to undergo significant changes aiming toward higher productivity and long-term development. The 20 Keys approach brings the worlds manufacturing improvement methods together and integrates these separate methods into a closely interrelated whole what results in synergistic effect.

Progress made in one key is automatically tied with progress in other 19 keys thank to synergistic effect and since the 20 Keys are interrelated. Companies are not compared with own competitors operating in the same industry or region but rather one company versus others in all industries throughout the world.

The 20 Keys program lays a foundation that makes existing management goals easier to achieve and more likely to be maintained over time, thus it deals with term-specific goals as with strategic goals and integrates them in overall strategy.

In order to reach a lasting result an integrated approach is needed that focuses on improving more than one factor at a time. The manager of leading international companies recognized the importance of synergy between different improvement efforts and the need for commitment at all levels of the company to achieve total system improvement. The 20 Keys method enable to systematically improve the strength of organization by paying attention to 20 different but interrelated aspects.

However, the 20 Keys approach needs to be tailored according to particular needs and situation of a company that is implementing program, since there are possible various combinations and sequences of keys so that company can produce high-quality products more quickly, inexpensively and easily than before. No matter what kind of an organization is implementing the 20 Keys, the overall objective to undergo a factory revolution in productivity doubling, lead time halving, elimination of quality complaints and so on remains the same.

The order in which 20 Keys are implemented and the target levels in each key may differ according to where the factory is currently weakest or where it most wants to emphasize improvement, such as in reducing quality complaints, shortening production time or doubling productivity to lower costs.
Although the 20 Keys program is primary developed for manufacturing companies, it can be applied to any kind of enterprise. The overall objective for every company is to make a progress step by step, the result is transformation of the company into a strong, change-adaptive organization.

Review Questions

1. Why is benchmarking process beneficial for the company and what parts does it consist of?
2. Why is it important to make progress in several aspects at a time and not separately by parts?
3. What does Kobayashi’s bean sprout analogy imply?
4. What companies are compared one versus another by implementing 20 Keys?
5. How long does usually the implementation of 20 Keys last?
6. What are the fundamental building blocks of the 20 Keys system?

Appendix

Figure 11.1: 20 Keys Relations Diagram (Petrarolo, 1998)

Kobayashi’s bean sprout analogy (Kobayashi, 1995)

References

12 CLUSTER THEORY

12.1 Introduction

The purpose of this part is analyzing clusters. We define the concept of cluster, give the practical examples for the clusters, classify them on the categories and explain some theoretic principles. People can see clusters in their everyday life. Car stores, banks and financial institutions and fashion stores can reform the clusters.

Usually small companies and entrepreneurs reform clusters. Smaller companies have fewer resources than larger companies have. Smaller companies reform clusters. Companies are stronger with each other when they are connected. Small companies haven’t similar abilities to perform than large corporations have. Small companies get advantages for operating in the clusters. Moreover small companies and researcher organizations are an engine of innovative processes in the clusters.

What happens inside of company is important but clusters reveal the immediate environment outside companies plays a vital role. Competitive success is geographically concentrated in specific areas. Clusters affect in national level but also in global level. There is much wisdom hiding behind Clusters. New academic approaches and fundamental studies are needed (Porter, 1998, p. 78). A strong cluster can help companies to achieve synergy advances.

Cluster study can bring new aspects. However clusters have been studied quite narrow. A Business environment of cluster is unique and many-sided topic. The main topics of cluster study are competiveness, cooperation, knowledge as a resource. Michael Porter is a researcher who has developed many useful models for analyzing clusters.

12.2 Definitions of Cluster

Clusters mean the interlocking companies and organizations which form the geographic concentrations in a particular sector. Links with other actors are relevant to the competitiveness. Creating innovations are required a special combination of factors of production and also competitive factors. These factors provide Porter’s diamond. Competitive factors pile up a regional growth centers, which are named clusters (Pitkäranta, 2009, p. 24). Businesses and other organizations interact with each other through co-evolution. They operate constant interaction with the operating environment and reform structure of cooperation constantly.

Clusters encompass an array of linked industries and other entities important competition. Suppliers of specialized inputs such as components, machinery, and services and providers of specialized infrastructure are part of a cluster system (Porter, 1998, p. 78).

A cluster’s boundaries are defined by the linkages and complementarities across industries and institutions that are most important to competition. Clusters don’t always follow national boundaries. Even they have political interests. Clusters promote both completion and cooperation. Rivals compete intensely to win and retain customers. Without vigorous competition a cluster will fail. Competition can coexist with cooperation because they occur on different players (Porter, 1998, p. 79).

Accordingly Porters’ original definition, cluster is: Geographically concentrated region and members of cluster are linked to each other companies, specialized suppliers, service providers and related institutions such as universities and other support organizations.

12.3 Companies get feedback which stimulates to improve business

Companies source inputs from players of a cluster and send outputs. The outputs are services, products and new innovations to their customers. The inputs are information, assistance from support institutions and educated workforce. A feedback from an environment motivates to make business better. A cluster allows each member to benefit as if it had greater scale or as if it had joined with others without sacrificing its flexibility.
• Clusters provide next benefits to the companies in the clusters.
• Better assess to employees and suppliers
• Assess to specialized information. Personal relationship and community ties foster trust and facilitate the flow of information. Clusters make information more transferable.
• Access to institutions and public goods. Government or other public institutions Investment to infrastructure or educational program- can enhance a company’s productivity. Private sector makes investments too which can enhance a company’s productivity.
• Better motivation. Local rivalry is high-motivating. Peer pressure amplifies competitive pressure within clusters but also no competing or indirectly competing companies.
• Companies are small or medium size firms which join with each others in the clusters. Small companies don’t have just big abilities than larger companies have. Clusters save money and resources from smaller companies. A small company manages better when it is linked to suppliers, manufactures, customers, services and researcher institutions.

12.4 Micro, meso and macro levels

The performance of clusters can be analyzed as a many-level system. Hoans’ classification of clusters identifies two dimensions. The first dimension classifies levels. The micro level refers clusters like as companies; the meso level and the macro level refer clusters like as sectors. Micro level clusters are most relevant to policy issues because these clusters cause a diffusion of innovations. Policy aims to generate general favorable conditions rather than stimulate specific firms. The second dimension operates innovative efforts or production linkages. Co-operation emerges the diffusion process of innovations. Innovations are variable such as new technologies, products, services etc. Clusters based on production linkages relate firms or sectors that produce a production or value added chain (Hoan, 2000, Abstract, Three variations on identifying clusters).

Most of studies claim that micro clusters diffuse innovations and these clusters are relevant for policy issues. Policy stimulates development of technologies and knowledge which generate higher economic growth (Hoan, 2000, Abstract, Three variations on identifying clusters).

Table 12.1: Hoan’s classification for micro, meso and macro-level

<table>
<thead>
<tr>
<th></th>
<th>innovative efforts</th>
<th>production linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Diffusion of technologies and knowledge between firms and research institutions</td>
<td>Suppliers and buyers in value added or production chain of firms</td>
</tr>
<tr>
<td>Meso</td>
<td>Diffusion of technology and knowledge between sectors</td>
<td>Backward and forward linkages between sectors: partial analyses</td>
</tr>
<tr>
<td>Macro</td>
<td>A split of economics system in sectors that diffuse knowledge or technologies</td>
<td>A split of economics system in sectors that form value added or production chains</td>
</tr>
</tbody>
</table>

Clusters often centralize in industrial districts, where many small and medium sized enterprises cooperate at a local level. They are highly specialized and they connect to same production cycle. The districts have developed as a consequence of local state interventions such as some industrial zones. The government can decide to build a site of key industry in a particular area. There are many technology parks in word widely which benefits synergistic collaboration. Sometimes incubators act as catalysts for small business generated on a specific area and have a valuable role in regional programs. On other hand small companies transfer ideas and technology from large companies and researcher organizations (Clegg, Hardy, Nord, 1997).
12.5 Competitiveness is a main building block

Accordingly Porter clusters affect competition in 3 broad ways:

1. Increasing the productivity of companies.
2. Driving the direction and emerge new innovations. Innovations improve companies’ productivity in future.
3. Stimulating the formation of new business which expands and strengthens cluster itself.

A region is not isolated in an operational environment. It is an open social and multi-level entity. A region is acting on its time because it is a dynamic and path dependent system, which has a link to global, national and local systems and processes. Competitiveness refers to the features that allow it to participate in competition with others. Competitive advantage is achieved if the region is able to produce a feature in which it stands out from other areas. The main elements of competitiveness are human resources, business, residential and living environment’s quality, institutions, networks with spatial developers, the membership of networks and infrastructure. In addition to so-called “the creative tension” and the image are the factors affecting the competitiveness (Ramstedt-Sen, 2010, p. 9).

Silicon Valley in California is a perfect example for a dynamic, successful global and national and social diversity cluster. There are much small companies, research institutions and human capital which cooperate together. Most of companies are ITC-based companies and knowledge is vital resource. In Silicon Valley, there is the creative tension which produces new companies and makes competition vibrant. Image of Silicon Valley is attractive and very successful. Infrastructure is highly developed and modern. Companies are able to get start up money which helps running businesses. Venture capital stimulates new entrepreneurs and encourages for innovating constantly new things.

Information, knowledge and learning are the building blocks of competitiveness. There are terms “knowledge-based economy” and “learning regions” on the literature of spatial development. Continuous learning, knowledge sharing and use are important actions in knowledge based-economics. Competitiveness can be built systematically through the public institutions such as universities. National politics should improve competitiveness of regions to build infrastructure (Ramstedt-Sen, 2010, ). Local institutions get benefits if companies establish new business in the municipalities. They can tax corporate tax from companies but municipality income tax can be smaller. New companies may bring also new inhabitants in the municipalities.

12.6 The five factors which produces competitiveness in the regions

1. Trade: local companies will be able to sell products and services to the market competition
2. Productivity: these products and services, value and efficiency of production will be in order.
3. Resources and capabilities: All resource recovery will be used effectively
4. Capabilities and Management: local actors will create new resources together or their own.
5. Well-being: local actors should be translated into economic competitiveness of the residents’ living conditions and well-being of supportive structures and services.

Alfred Marshall argued that the other industrial sectors fared better in some areas than others. He developed the concept of “industrial climate” which is a path dependent and difficult to be relocated. Within each region have the specific nature and actors operate interaction and cooperation between different organizations, and not only exchange goods (Ramstedt-Sen, 2010, p. 17).

A local spirit of competition will bring more intensity and emotional dimension of competition. It is easy to compare a company success within the neighbor’s business when environmental factors are equal. While, the competitors which are further is harder to compare (Ramstedt-Sen, 2010, p. 21).
12.7 Advantages of clustering

Companies have the opportunity to access specific industry knowledge and resources.
- The opportunity to interact face to face frequently.
- The increased availability of subcontractors.
- Better access to services and education and research specialization.
  Knowledge and skills increased mobility between jobs.
- A potential customer base growth.

Adam Smith has observed the advantages of regional specialization and concentration. In The regional concentration productivity improved. It was consequence from scale advantages of production and availability of labor makes (Ramstedt-Sen, 2010, p. 17).

It is often wrongly assumed that the same industry group will automatically create a cluster at the same industry sector which is not true. Only to the same area of operation of business or sector does not automatically is a cluster. The cluster will create links between value chains and the rest of the interaction of knowledge and skills and marketing. The main key is a competitive element (Ramstedt-Sen, 2010, p 20).

In a dense cluster organizations are interacting with each other. The actors usually share important information, but this requires a sense of belonging together. The phenomenon is named buzz. The benefits from buzz did not require large investments as long as the interaction with the actors in the clusters. The buzz isn’t formal information but it can emerge innovations. It is spontaneous and non-planed performance interaction between companies. In the global level a buzz operates via global pipelines which occurs advantages to companies innovation system (Ramstedt-Sen, 2010, p. 27). Trust is main element of sharing information when members of network have connections each others. Informality makes the change of information smooth and trustful processes.

Companies’ accumulation of clusters will bring crucial benefits. The most important concepts are location economics and urbanization economics for cluster thinking. These concepts are strongly influenced by the competitiveness of developing the regions (Ramstedt-Sen, 2010, p.18).

12.7 Clusters-oriented thinking and innovation system-oriented thinking

Clusters and innovations can be seen on two categories depend on a way of thinking:

Table 12.2: Two different ways to think

<table>
<thead>
<tr>
<th>Cluster-oriented thinking</th>
<th>Innovation system-oriented thinking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies</td>
<td>Knowledge</td>
</tr>
<tr>
<td>Markets</td>
<td>Market and social relations</td>
</tr>
<tr>
<td>Minor fragmentation</td>
<td>Developer platforms associations</td>
</tr>
<tr>
<td>Researching and planning</td>
<td>Discovering new (innovations, policies etc.)</td>
</tr>
<tr>
<td>Commercialization</td>
<td>Using existed Information</td>
</tr>
<tr>
<td>Allied stakeholders</td>
<td>Cooperation between organizations</td>
</tr>
<tr>
<td>Cooperation</td>
<td></td>
</tr>
<tr>
<td>Competitiveness</td>
<td></td>
</tr>
</tbody>
</table>

The direction of study on cluster has changed since Porter’s ideas: Today, there is a debate about a notion how clusters will increase the creation of knowledge and learning new things. Modern thinking emphases character from evolutionary development of clusters (Ramstetd-Sen, 2010, p. 24). In cluster thinking main elements are minor fragmentation, cooperation and competitiveness. In clusters organizations interacts each others, competitiveness force to react fast changes of environment and to produce new innovations. Usually companies are located near each other geographically which bring synergy advantages and dynamics processes for external relations. Innovative thinking has rise in forums of regional development in era of globalization. Knowledge is a new resource which are more valuable than natural resources most of cases.
Nationally significant the same sector companies are geographically close to each other, as in the same city or metropolitan area. In such environment the flow of information and its exchange is fast between companies (Ramstetd-Sen, 2010, p. 21).

### 12.8 Different types of clusters in Finland

**Table 12.3: Clusters in Finland**

<table>
<thead>
<tr>
<th>Clusters in Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
</tr>
<tr>
<td>Forest cluster</td>
</tr>
<tr>
<td>Semi-strong</td>
</tr>
<tr>
<td>Energy cluster</td>
</tr>
<tr>
<td>Potential</td>
</tr>
<tr>
<td>Telecommunication cluster</td>
</tr>
<tr>
<td>Latent</td>
</tr>
<tr>
<td>Building cluster</td>
</tr>
<tr>
<td>Other clusters (weak):</td>
</tr>
<tr>
<td>Euclasite Finland: Educational cluster</td>
</tr>
<tr>
<td>Tourist cluster in Lapland</td>
</tr>
</tbody>
</table>

Finland is European’s the most arborous country. Finland’s land area is forest 78% and 10% is water. The forest industry is the pillars of the Finnish economy. Its annual turnover is approximately EUR 20 billion, and its share of net exports is 27%. Forest resources are increasing continuously. Trees are pines (50%) and spruce (30%) wood resources in Finland. Birch is the dominant hardwood (16%) (METLA, European metsäisin maa).

The forest clusters is oldest cluster in Finland. There is much competence of forest sector in Finland. Finnish paper, paper machinery and pulp are well-known and quality products in Finland. These strong and semi-strong clusters are significant and productivity in national level but also in international level. On other words the Finns have knowledge in these sectors. Wood can be used to source of energy. The Finns have knowledge from production of energy for example woodchips (logging waste) can be used to source of energy.

Telecommunication technology has highly developed and used to be an engine of innovation culture in Finland. Nokia is well-known mobile company from Finland whose roots are from Finland but production has mainly transferred in low-cost countries in 2000-century. The company manufactured rubber boots, car tires and cables at first and later expanded to manufacture cell phones. The small company Nokia started over 100 years ago but now days it is a global corporation.

Finland is also well-known for quality and responsible education: The Finns have ranked top of PISA studies. Finland is a large country so transport of goods and resources has to deal properly. Finnish companies and the state-owned railway company have developed logistic processes and reliability of transport. Finland is welfare country which provides wide social security, quality health care and mostly free education. Knowledge about welfare sector can benchmark globally and Finland could provide consultation for this sector. Tourist sector is weak in Finland but so called experience economy could be improved on larger scale.

### 12.9 Characters of Clusters

Accordingly European commission report clusters can be divided two categories: Science-based clusters and traditional clusters.
Table 12.4: Differences between IT-clusters and traditional clusters

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Science-based clusters</th>
<th>Traditional clusters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Young</td>
<td>Young and old</td>
</tr>
<tr>
<td>Dominant forms of transaction</td>
<td>Market based relationships, temporary coalitions and long-term relationships</td>
<td>Long-term market relationship</td>
</tr>
<tr>
<td>Important local collaborators</td>
<td>R&amp;D institutions and public authorities</td>
<td>Service suppliers and public authorities</td>
</tr>
<tr>
<td>Typical innovation activity</td>
<td>Technology generators (mainly product development and changes in the organization of the production process)</td>
<td>Incremental innovators (mainly product development and new methods of marketing and distributions)</td>
</tr>
</tbody>
</table>

Clusters such as “the original Silicon Valley” have evolved a technology identity, rather than an industry identity. In these clusters, new technologies, often developed with the participation of university researchers, provide radical innovations that are often competence-destroying, giving rise to whole new industries and firms. The Silicon Valley cause is science-based cluster because high amount of high-tech companies (Teräs, 2008, p. 35-36).

Knowledge clusters information and educated labor are main resources. In these clusters have high-tech companies and good linkages to researcher institutions. Knowledge clusters are also innovative and there is creative tension which can emerge unpredictable processes.

Traditional clusters may be old and they have lot of experience to operate the domain and also international market. Companies have strong relations with each other and cooperation is long-term. Companies’ status is stability and competition doesn’t force big changes. This kind of cluster is London as Financial centre.

Geographical clusters reform specific regions because conditions such as a convenient position or natural conditions. For example wine industry and grapes farming in Chile and France in some regions.

Low-cost manufacturing clusters are located usually in developing countries. Clusters try to manufacture as low costs as possible. Markets can be near or products can be sold to industrialized countries. Employers pay low salary and work conditions are very bad. Companies have to ensure supply of labor. These kinds of clusters are textile clusters and electronics manufacture clusters in the poor countries. The clusters can also provide specialized and low-cost services to global customers. There are many software developing companies and engineering support companies in developing countries which provide services via networks to multinational corporations.

Italy’s strong reputation for fashion and design emerged a cluster of leather goods and footwear. The environmental cluster in Finland emerged as a result of pollution problems by local process industrials such as metals, forestry, chemicals and energy. In a middle-income economy like Portugal, exporting clusters tend to be natural resource or labor intensive (Porter, 1998, p. 87).

Michael Porter has mentioned two-types of clusters which are horizontal and vertical clusters. Horizontal cluster companies have interconnections with other organizations to deliver resources. Vertical clusters are so called supply chain clusters.

The web dictionary gives a previous definition on supply chain: “It is the network of retailers, distributors, transporters, storage facilities and suppliers that participate in the sale, delivery and production of a particular product.” (investowords.com).
12.10 Michel Porter is an expert on cluster study

Michael Porter was born in 1947; he has done a long career at Harvard Business school. He is an appreciate authority on company strategy and the competitiveness of nations and regions. Michael Porter’s work is recognized in many governments, corporations and academic circles globally.

Historical trade theory is based on the factors of production. The roots of Porters theory are located on the trade theory. The theory is that States have a variety of production factor in use. The country exported to products which has been used in the production of factors which the State has a great amount. Traditional economic theory calls the principle of comparative advantage. The theory has developed in era which trademarks were related to re-sources such as exporting wines, spices and food (Pitkäranta, 2009, p. 26).

Porter’s cluster theory emphasis that the information is competitive advantage, in the past raw material was such advantage. A monopoly of knowledge can only remain competitiveness via the information exchange while the raw materials monopoly can be closed. Geographical concentration of enterprises in clusters relates monopolistic elements. The focus on global market brings benefits to companies. Information is more than the raw materials, because it can be duplicated and distributed at virtually zero cost (Pitkäranta, 2009, p. 26).

Porter’s attention is focused on value chains formed complexes, vertical and horizontal linkages, which consists of players in the same industry and between them is competition. Cooperation is an engine which maintains alive clusters. The Porters’ models provide a useful tool to analyze and to conceptualize and to deal strategically development of the region (Ramstedt-Sen, 2010, p. 20).

12.11 Porters Diamond

The model explains why some companies are more successful than others in national level but as well global level. The model shows the competitive advantages on a global level. The model shows factors which show weakness and strengths of companies.

*Figure 12.1: Porters’ Diamond*
Factor conditions:
- Each country creates its own important factors such as skilled resources and technological base.
- The stock of factors at a given time is less important than the extent that they are upgraded and deployed.
- Local disadvantages in factors of production force innovation. Adverse conditions such as labor shortages or scarce raw materials force firms to develop new methods, and this innovation often leads to a national comparative advantage. (Strategic management).
- More simplify factor conditions are: “an availability of raw materials and suitable infrastructure” in the states. (Management account bloc). Furthermore factors contain also work force and machinery for production.

Demand Conditions:
- When the market for a particular product is larger locally than in foreign markets, the local firms devote more attention to that product than do foreign firms, leading to a competitive advantage when the local firms begin exporting the product.
- A more demanding local market leads to national advantage.
- A strong, trend-setting local market helps local firms anticipate global trends. (Strategic management).

Demand conditions are “The goods or services have to be demanded at home: this starts international success.” (Management account bloc).

Related and Supporting Industries:
- When local supporting industries are competitive, firms enjoy more cost effective and innovative inputs.
- This effect is strengthened when the suppliers themselves are strong global competitors. (Strategic management).
- “These factors allow easy access to components and knowledge sharing (Management account bloc).”

Firm Strategy, Structure, and Rivalry:
- Local conditions affect firm strategy. For example, German companies tend to be hierarchical. Italian companies tend to be smaller and are run more like extended families. Such strategy and structure helps to determine in which types of industries a nation’s firms will excel.
- In Porter’s Five Forces model, low rivalry made an industry attractive. While at a single point in time a firm prefers less rivalry, over the long run more local rivalry is better since it puts pressure on firms to innovate and improve. In fact, high local rivalry results in less global rivalry.
- Local rivalry forces firms to move beyond basic advantages that the home country may enjoy, such as low factor costs. (Strategic management).
- “If the home market is very competitive, a company is more likely to become world class”(Management account bloc).”
- Porter has an opinion for the good firm strategy. The essence of strategy is choosing to perform activities differently than rivals do. Companies’ management should define company’s position, make compromises and rationalize activities. Controversially Porters tells also which is not the good strategy (Porter, What is strategy, p. 3, 64).
- Operational effectiveness

Others factors:
There are a few other dimensions which affect companies’ competitiveness. It is quite complex concept. There are many factors which involves on the competition of companies.
Government’s Role:
The role of government in the model is to:
- Encourage companies to raise their performance, for example by enforcing strict product standards.
- Stimulate early demand for advanced products.
- Focus on specialized factor creation. On other words government should stimulate to produce new innovations.
- Stimulate local rivalry by limiting direct cooperation and enforcing antitrust regulations. The government shouldn’t make monopolies but to allow free competition. (Strategic management).

Environment:
This is not formal dimension but it is always affect companies performance. Companies aren’t not isolated its environment. Companies should adapt to requirements in changes of environment.

12.12 Porters Five Forces- A model for identifying strengths

Porter created five forces model which helps analyzing the competitive strength and position of business organization. The companies have to recognize their competitors and make their business better than competitors do. The rivals is a treat for survive of the company. In additional treats are also changes in operation environment or techniques which are more developed for the competitors. On the other words firms tend to make profit in the market and these five forces impact profitable.

Porter’s Five Forces

1. Existing competitive rivalry between suppliers
   “Rivalry refers to the competitive struggle for market share between firms in an industry sector. Extreme rivalry among established firms set up a strong threat to profitability.” (Management study guide).
2. Threat of new market participants
   “Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if they are given an opportunity. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs.” (Management study guide). Brand loyalty, high costs and government regulation can restrict the access of participants to the market.
3. Bargaining power of buyers
   “Buyers refer to the customers who finally consume the product or the firms who distribute the industry’s product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product”. (Management study guide).
4. Power of suppliers
   “Suppliers refer to the firms that provide inputs to the industry. Bargaining power of suppliers refers to the potential of the suppliers to increase the prices of inputs for example work force, raw materials and services or the costs of industry in other ways.” (Management study guide).
5. Threat of substitute products (including technology change) (porter’s five forces model).
   “Substitute products refer to the products having ability of satisfying customers needs effectively (Management study guide).
12.13 Differences for cluster effect and network effect

The cluster effect can be seen on local level. In urban areas such as city centre similar business can build up a narrow area on the same street. For example fashion stores on the same street, stores are rarely isolated from the competition. The cluster effect is similar to but not the same as the network effect. Net work effect occurs spontaneously but cluster effect emergences new business and it is complex multi-level process.

12.14 Conclusions

Clusters are an efficient way for small business to connect with other companies, support organizations, researcher organizations and suppliers. Companies are highly innovated because competition. Members of clusters are needed fast adaptation for chances of environment. Furthermore customers demand and consumption needs change all the time so clusters have to react trends.

Cooperation produces unique and complex networks between companies, authorities and universities. One advantage of clusters is easy access to information and common wisdom. Networks offer the opportunity to communicate personally, offer skilled employees and increase mobility between organizations. Interconnections may be formal or informal. The role of informal connections is often forgotten. Trust and personal experiment for knowing someone are important properties of cooperation.

The volume and characteristic of clusters are variable. Some clusters are stronger than others because situation on the market. Low cost manufacturing clusters are typically presented in the developing countries than high-tech clusters are presented in the industrialized countries. Cheap work force is needed for mass production while a modern infrastructure and investments are needed knowledge-technical clusters.

There are many factors which affect the successful of companies. Michael Porters’ Diamond model is the most wide-spread analytical tool for recognize the significant factors. Furthermore companies have a completion situation in the clusters. They have to be aware treats and changes of customers and suppliers if the companies want combine their competitors.

Clusters are a significant phenomenon which is an excellent topic for further studies. This seminar paper gives the basic knowledge for clusters in the large scale.
Review questions

• How would you define a cluster?
• What benefits provide cluster system to the company?
• At which level the performance of cluster can be analyzed?
• How cluster affects the company competitiveness?
• Which factors produce competitiveness in the region?
• What are the main advantages of clustering?
• What types of cluster are known to you?
• In which group clusters can be divided?
• Try to explain Porter’s diamond!
• Try to explain Porter’s five forces!

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13 THE NEW ORGANIZATIONAL PARADIGM

13.1 Introduction

About the 1960s and on to today, the environment of today’s organizations has changed a great deal. A variety of driving forces provoke this change. Increasing telecommunications has “shrunk” the world substantially. Increasing diversity of workers has brought in a wide array of differing values, perspectives and expectations among workers. Public consciousness has become much more sensitive and demanding that organizations be more socially responsible. Much of the third-world countries have joined the global marketplace, creating a wider arena for sales and services. Organizations became responsible not only to stockholders (those who owned stock) but to a wider community of “stakeholders.” As a result of the above driving forces, organizations were required to adopt a “new paradigm,” or view on the world, to be more sensitive, flexible and adaptable to the demands and expectations of stakeholder demands. Many organizations have abandoned or are abandoning the traditional top-down, rigid and hierarchical structures to more “organic” and fluid forms. Today’s leaders or managers must deal with continual, rapid change. Managers faced with a major decision can no longer refer back to an earlier developed plan for direction. Management techniques must continually notice changes in the environment and organization, assess this change and manage change. Managing change does not mean controlling it, rather understanding it, adapting to it where necessary and guiding it when possible. Managers can’t know it all or reference resources for every situation. Managers must count on and listen more to their employees. Consequently, new forms of organizations are becoming more common, e.g., worker-centered teams, self-organizing and self-designing teams, etc.

The objective of this chapter is to reveal that leading companies today are structured more like a global neural network. They operate as a flattened matrix, where information and authority move in all directions through the organization and around the world, and adhoc cross-functional teams are as important in achieving business goals as formal vertical structures. Managers are more likely to be facilitating diverse teams whose members come from different cultures and timezones and who report to multiple bosses than they are to serve as formal leaders of direct reports who all work in the same location.

13.2 Concept of new organizational paradigm

Paradigm definition. Environment is constantly changing. In a rapidly changing environment will thrive only those economic and other entities which will be able to successfully manage change? For that reason must a key player-man have a constant, which is used to timeless manage changes and enables proactive identification of changes and their successful management. This constant, some researchers recognized as a new paradigm for managing changes (Bukovec, 2004, p. 3).

For the term paradigm researchers have different interpretations. Drucker (2001, p. 14) states that the term paradigm is a set of basic assumptions about what it is to be a reality. These assumptions settle into the researchers’ subconscious and also largely determine how they a science represents reality. Proper interaction of assumptions formed paradigm, which also has a reverse function to each discipline by which it draws attention to the important and less important areas of his research.

Covey (1994, p. 21) believes that the paradigm does not represent reality, it just means attempt to maximize an objective mirror of reality. After that the author covers the paradigm model, theory, perception, and assumption or observation system. It means the way to the detection, understanding and interpretation how the individual sees the world. Paradigm picturesque compares with the map and the map is not the territory and even paradigm is not the world, but only model of its perception of reality.

The definition of scientific paradigm is introduced to the theory of science physicist Thomas S. Kuhn in the seventies of the last century. Paradigm is defined as a complex of the leading theories, research methods, and philosophical justification and the sample using theories (Bukovec, 2004, p. 41). Paradigm provides a framework for the exploration and interpretation of reality, the selection of relevant examples, facts and a description of the learning process within a certain science. Furthermore, the same author notes that the
development of science goes through various revolutionary breaks in which undermines the former and establishes a new paradigm. Crisis transitions, where much work psychological and social factors Kuhn recognized as a scientific revolution. In different periods of science, dominates general way of thinking (ideology), which defines the concept of truth? Outlook is so general that it can not be directly verified, but with its determinisms and basic gradients determines the direction of science. In a certain science dominates a general opinion of what the subject of science is. Paradigm is therefore the basis for the creation of theories and research material for editing. The ruling paradigm is not something fixed, so in it is possible to situate her research results achieved. When reached radically different research results are achieved, it is not possible to install them in the ruling paradigm. This leads to the abandonment of the dominant paradigm and to its replacement or the creation of entirely new ones.

If the paradigm is not verifiable, is said to be metaphysical or overscientific (Bukovec, 2004, p. 41). Already mentioned researcher Kuhn states that the general views which are unverifiable and unscientific, metaphysical, can lead a certain science. That his thesis had great influences especially among sociologists and has led the debate on the relationship of individual theories to paradigms. It is also recognized that the theories are narrower of paradigms. Theories are the teaching lessons concerning certain issues and they are not as general as the paradigm, because they contain some of the assertions and determinism, which are the result of empirical studies.

Paradigm has a decisive impact on the setting theories, and on the methods of research and interpretation of the research material. Already mentioned researcher Kuhn argues that the paradigm is the approach to determining the course of setting science on which they depended basic views, attitudes and assumptions (Bukovec, 2004, p. 41), which means that science is always under the influence of certain paradigms. Paradigms are more general then specific theories. Kuhn defines paradigm with a multitude of different definitions, which are essential elements of the underlying theory, selected examples of applied theory, patterns of interpretation discussed phenomena and basic research methods. The new scientific paradigm often arises on break through scientific discovery, which becomes the new norm and ideal of a science.

Based on established and accepted paradigm is evolving certain science. After some time, scientific knowledge can no longer be installed in the existing paradigm and leads to anomalies. All this leads to a crisis of science and the gradual development of new, different paradigms, as Kuhn referred to as the scientific revolution, thus starting the next development cycle.

Between domestic researchers the concept of paradigm at the turn of the Millennium complex studied M. Ovsenik and M. Ambrose (2000, p. 10-30). Paradigm defined as a building stone of individual and collective identity of the organization at the same time. They believe that the paradigm has a guiding role in the control of management, leaders and their staff as well as the identity of the organization. Paradigm defined as a system of knowledge, assumptions, beliefs, expectations, emotions, scenarios, and principles by which we perceive the environment and tested it to the compliance with our identity. Paradigm is concrete, permeating the individual and its environment, has a restrictive role of the individual, forms complexity of organization system and allows to system to observe and thematized only difference in the environment, in accordance with its operating logic. The system therefore does not detect the differences, which are not reflected in its paradigm. The authors further note that it has long been present mechanistic paradigm based on the findings and policies of Newton physics.

Mechanistic paradigm, which is still strongly present, based on:

- social Darwinism,
- autocratic decision-making mode,
- planning for the future by elites,
- physical organization
- focus on reducing costs
- autonomy of organizations and
- absolute detection of time.
In the last decade, the author recognize the existence and development and the importance of humane paradigm, which is the opposite or complementary to mechanistic paradigm, which is based on:

- social interventionism,
- democratic method of decision-making
- the inclusion of all in the planning of future
- holistic image of the organization,
- policy-saving,
- depending organization on the environment and
- relevance of the perception of time.

Kuhn (1998) recognized the cyclical changing of scientific progress, when analyzed in detail the emergence of a paradigm shift, where the phases of the transaction followed by transformation or paradigm shift. Researcher Capra (1996, p. 5) in his works finds time shift from mechanistic to a holistic and ecological view. Social paradigm is defined as a network of concepts, values, perceptions and common used practices that create a specific view of reality and a starting point for the organization. Capra new paradigm called “fundamental ecological” which draws its strength in view of the world as a network of mutual connections and mutual dependencies, rather than a collection of isolated objects. In the fundamental ecological paradigm man is only one part of web life. Previous paradigm according to Capra (1996, p. 11) based on the values of people-centered, new fundamental ecological paradigm, which is based on values, focused on Earth. When the fundamental ecological paradigm will become a reality, a part of our consciousness, leading to the emergence of new ethics. Central in it is life. Fundamental ecological paradigm rejects the belief that the explanation for all the things id possible to look for and find in physics. Believes that today’s paradigm shift in science requires a comprehensive and fundamental shift from physics to sciences of life.

Covey (2000, p. 143) to identify the principles of effective management addresses a paradigm shift as a break with the old ways of thinking and design of the new aspects of understanding and interpretation of reality. In order to achieve qualitative shifts in the personal, group and system level is necessary before achieving shift of basic patterns, frames of thinking or our views.

Covey (2000, p. 146-149) identifies four managerial paradigm. Considers that the three based on a false assumption about human nature, and therefore predicts the need for a paradigm shift from the false to the principles of management paradigm. He identifies the following managerial paradigm (Bukovec, 2004, p. 44):

The paradigm of scientific management account people as economic beings, who are driven only by economic security: managerial style is authoritative, the overriding principle of fairness and stomach metaphor. The paradigm of human relations into account human as well as social and emotional beings, managerial style is generously autocratic and based on human relationships, the overriding principle is kindness and heart metaphor.

The paradigm of human resources recognizes people as cognitive thinking beings, managerial style is focused on creating an environment for relaxation and creativity to achieve organizational objectives, the overriding principle is the use and development of talent and the metaphor of the mind.

The paradigm of leadership based on the principles of four levels and four key principles (Covey, 2000, p. 151-155):

- Paradigm on a personal level based on the principle of credibility, where the “I” key component.
- Paradigm on an interpersonal level based on the principle of trust and human beings as a key ingredient.
- The paradigm in the management level is based on the power and style and skills as key elements.
- The paradigm of the system or at the organizational level is based on the principle of harmony and a common vision and principles, structures, systems, strategies and management of the environment as key ingredients.
Paradigm based on the principles of management is to Covey (2000, p. 156) explicitly focused on nature and life, as his integrity, openness and interactivity of the system and the environment in a holistic and its interdependence with, involvement in nature and indivisibility of ecological environment, with gradual and series at development from the inside to out, with a proactive approach and mindset of abundance focus on people.

Based on the previous paragraphs referred to the definition of organizational paradigms by different authors that organizational paradigm consists of the fundamental assumptions underlying the formation and development of new organizational theories. Organizational paradigm is thus a mental background and philosophical basis for the creation and development of new organizational theories. Organizational paradigm design thinking and musings on the fundamental issues for the functioning of organizations and the emergence of new organizational theories.

In more recent times has seen a clear and categorical shift from the area in the direction of the machine metaphor to metaphor of a living organism.

The concept of organization made a great change from its origins to nowadays. The main principal or organization no longer come along with principals suggested by W. Taylor, Frank and Lillian Gilberth, Henry Gantt, Henry Emerson or Henry Ford, which were the beginners of the organizational theory. Recently theorists and business men raised a question: What sort of organization can successfully replace the traditional bureaucratic structure? This question has been driving many experiments with organizational systems and arrangements. Therefore, it is very difficult, maybe impossible to define post-bureaucratic organization precisely. The notion of the postmodernism, as “a very slippery concept”, is drawn from a set of examples of organizations that obviously left traditional bureaucratic course.

Postmodern world is riddled by increased rate of change, global competitiveness, information and electronic revolution (information and knowledge are primary form of capital), turbulent and unpredictable environment. Flexibility and organizational responsiveness are getting crucial. Postmodern organization has recognized the necessity of introduction of more adaptable arrangements, such as homework, teamwork, cross-training, job switching, multiskilling and multitasking, subcontracting, outsourcing, contingent employment contracts, etc.

According to D. Lonar (2005), organizations are becoming flatter and information technology enables communication in all possible direction. Furthermore, organizations are striving for more decentralised structures with higher employee empowerment. The related propensity is gaining “right size” in terms of number of employees and asset value. For instance, ‘just-in-time’ system tends to reduce inventory costs. The production is pulled by market demand, rather than pushed by “just-in-case principle”.

D. Lonar continues by stating that postmodern organization is characterized by ‘fuzzy, shifting boundaries’. This is obvious through the growth of alliances, networks, joint ventures among different firms, but also through increasing fluctuation in work-force contingent. The flattening of structure brings numerous layoffs, which increases insecurity of employees and accelerates competition for job. On top of it, the number of temporarily hired workers has experienced steep rise. Temporary workers have long been used to fill in for sick or vacationing workers, but recently employers have been hiring temporaries in massive number to fill formerly permanent positions. Employers want to avoid having workers on their payrolls when demand is low. Also, they save by externalising the administrative costs entailed with recruitment, hiring, and control of temporary workers. This is a potential source of animosity, tension and conflict between permanent and temporary workers, “particularly if permanent workers view temporaries as a reserve army of labour, ready and willing to step into their full-time, permanent job” (Geary, J.F., 2001).

In contrast to bureaucratic concept, which insists on limited responsibility, new organizational paradigm suggests that everyone takes responsibility for the success of the organization as a whole. The prerequisite for this is integrating people around organizational mission and strategy. Employees need to understand the key objectives in depth in order to coordinate their actions with others. In order to link individual con-
tributions (individual jobs) to the mission, there is widespread sharing and dissemination of information. Information flows from the top down but also from the bottom up and laterally, which drastically improves the quality and credibility of the data being shared. Therefore, the institutionalisation of dialogue plays an important role in enhancing the atmosphere of trust within the organization. The organizational networks and alliances, for example, are replacing all forms of vertical command and communication channels with lateral relationships among different companies. A network may be based on technical collaboration, massive outsourcing, wish to increase size and internationalise business activities, etc (Hatch, M.J., 1997). International partnerships in forms of joint risks accelerate the movement of financial, production and information resources between spatially dispersed locations. Focus on mission is supplemented by course for action based on principles rather than rules.

D. Lonar continues by stating that new organizational paradigm changed a role of worker by changing rules to principles. Principles, as opposed to rules, give only the general message for doing something. They leave certain extent of flexibility to employees, because the choice what to do is determined by the nature of the current problem, not by formal procedures. Instead of a role specified by the organization and codified in a job description, a role is identified by the current task and location of the worker. People are asked to think about the reasons for doing something rather than blindly follow rigid procedures. Furthermore, once established principles are not fixed, but susceptible to periodic discussions and reviews in line with changing circumstances.

What is more, continuous learning is a condition for job security in contemporary learning organization. All employees are stimulated, through systematic and regular meetings with managers, to share their ideas and express ‘tacit knowledge’, which might be very useful for continuous re-definition of tasks. The aim is to learn by doing and by listening to the colleagues’ opinions and experiences (‘collective intelligence’). Moreover, the obsession with learning about work is expressed through increased demand for continuous innovation and adaptation and rapid obsolescence of working practices and knowledge (Lonar, Dragan, 2005).

N.H. Chorn (1991) believes that according to the new paradigm today’s organizations can be defined by five key characteristics:

- **Vision before analysis.** In order to be proactive in a changing and turbulent environment, organizations are articulating their overall purpose and direction prior to undertaking more detailed analysis of the environment. Instead of reacting to the environment by selecting options after an analysis of various opportunities, they act as “path finders” by imagining and creating future scenarios for themselves. The analysis that follows is not of lesser importance, however. It takes place after the overall vision has been articulated and, in this way, is clearly focused around the specific needs of the organization’s future direction. Perhaps, more importantly, the analysis is now viewed as a tool to enable the organization to achieve its strategic purposes rather than a framework which reactively determines the vision.

- **Individual Oriented.** As opposed to the obsession of developing effective teamwork, which dominated management thinking in the 1970s and 1980s, managers now recognize that individuals will play an increasingly important role in making organizations effective. Individuals are at the core of creative, innovative ideas and the delivery of good customer service. Limerick has coined the term “collaborative individualism” to describe the phenomenon of individuals who are not imprisoned by the boundaries of the group, and who can act with self-driven capacity to transform organizations. At the same time, however, these individuals understand the need to act in concert with respect to a broadly defined common agenda. Collaborative individualism, therefore, differs radically from the systems concept of cohesive teamwork.

- **Fluid Teams.** With respect to the collaborative component of individualism, organizations are developing a fluid approach to the concept of teams. By and large, individuals are combining their efforts to work collectively on projects or assignments for shorter periods of time. The task at hand, rather than the organization structure, becomes the primary logic for the team’s make-up.

- **Decentralization and Empowerment.** To lead these organizations, chief executives are relying on
smaller, leaner corporate headquarters, where all but the essential functions are being transferred into the operating divisions. Although the interpretation of “essential” differs from case to case, the responsibility for many of the traditional centralized functions, such as strategic planning and industrial relations, is being transferred to line managers within the divisions. To a large extent, this means that decision making is taking place “closer to the coal face” by people engaged in the core activities of the organization. However, rather than being set a multitude of operational rules and regulations to follow, individuals are empowered by the organization’s leaders. Quite simply, this means that they create widespread understanding of the organization’s strategic vision, and allow individuals to operate relatively independently within this strategic framework. This results in a high level of creative, market-oriented behavior throughout the organization.

- Indirect Controls. Whereas the systems-oriented organization is characterized by direct forms of control such as objective standards, explicit job descriptions and standard operating procedures, more modern organizations increasingly rely on a range of more implicit and subjective means of control. These include a common understanding of a strategic vision, a core set of values and self-motivated individuals in key leadership positions. This creates what Waterman refers to as “stability in motion”, and provides a series of indications to personnel about the required behaviors and approaches (N.H. Chorn, 1991).

13.3 Leadership in new organizational paradigm

Organization could not survive without its main component – a leader. With the arrival of the new millennium, we are fast approaching the end of the bureaucratic century. New organizational and leadership paradigms are in the Transformational Leadership and the New Organizational Paradigm. We now turn to considering how the new organizational paradigm can be understood in terms of the transformational leadership model. The Best Companies for Leadership are moving more quickly and completely than others to implement this new organizational paradigm: flattening their structures and preparing their managers to lead effectively within it. In the process, they are gaining important competitive advantages. One of the defining characteristics of a neural network is the absence of a single principal or leading node; functions and roles shift with the problem being addressed. The Best Companies for Leadership behave in the same way. They are not looking for leadership and innovation only at the top of the hierarchy; they expect everyone, at all levels, to exercise leadership and bring value to the enterprise. This openness, even eagerness, for nontraditional sources of leadership applies to every corner of the organization, including subsidiaries and local leaders, who may not share the same culture or nationality as the CEO. Leading organizations have formalized this strategy by establishing practices that actively seek out innovative and successful ideas and practices, and disseminate them throughout the company.


According to Rodger Gill (1998), the demands of the new millennium and the new organizational paradigm entail organizational change, and change is the business of leaders, not managers. The challenge for leaders to be transformational is taking the form of not only how they respond to change but also how they actively and constancy create change. Constant reorganization or continuous organizational change is needed to meet the pressures of a fast-changing, turbulent environment is the norm. Crucially, high-trust relationships are needed to be encouraged in situations of change and uncertainty. This implies nothing less than a completely new philosophy of human resource management. As Hastings (1993) has concluded, new organizational cultures are supplanting the old, exemplified by hierarchies, boundaries, internal focus, control, and mistake avoidance. New organizational cultures in contrast are exemplified by teams, networking, external focus, empowerment, mutual trust and supportive action, and calculated risk taking.

While the laissez-faire and transactional leadership behavior of Weber’s bureaucratic organizations appears to parcel out the souls of its workers, transformational leadership in the post-bureaucratic age aims to win their hearts and minds. This New Leadership (Bryman, 1992) characterizes the new organizational paradigm. Leadership for the new millennium is witnessing a paradigm shift. It means scenario thinking, providing a compelling vision of the possible future, showing the way through rational strategies, truly empower-
ing people through individualized consideration and intellectual stimulation, developing their competencies, providing appropriate resources and opportunity, and inspiring people to want to do the things that enable the organization to attain its vision. In this way, the organization can achieve extraordinary performance in the new millennium. Transformational leadership is the hallmark of the successful organization in the twenty-first century.

Senge (1992) maps out the new role of the leader in the twenty-first century in the new organization:

1. Designing the governing ideas of purpose (mission), vision and core values;
2. Designing the policies, strategies and structure that translate these ideas into business decisions;
3. Coaching, guiding and facilitating people in gaining more insightful views of current reality;
4. Serving as steward of a higher level of functioning - in line with Greenleafs.

Individualized consideration and intellectual stimulation are evident in the empowerment of the individual and the trend away from handwork and towards headwork. The resistance of workers in the bureaucratic organization, and at best their compliance, to command and control is replaced in the new organization by commitment based on a shared vision, empowerment and inspiration. Perhaps the most visible change is the shift in emphasis from management to leadership. ‘Lead the people, but let them manage themselves’ is the new imperative. Individualized consideration must not exclude dealing with the individual’s insecurity and potential redundancy or with intrinsic conflicts between their personal needs and the goals of their organization that no amount of visioning, empowering and inspiring will resolve. What is needed is a universalist philosophy that translates into satisfying -employees’ psychological needs both through their pursuit and fulfilment of the organization’s vision and objectives and through their self-management. The twentieth-century organization, with its artificial rigidities and disciplines, Champy (1997) says, will be replaced by one characterized by responsibility, autonomy, risk and uncertainty - a very human organization with all its satisfactions and frustrations. Transformational leadership, through a combination of intellectual stimulation and inspirational motivation, encourages individuals in self-managed and shifting project teams to take the initiative and constantly invent improvements.

The inherently empowering force of transformational leadership is re-enchanting the workforce disenchanted with the laissez-faire and transactional behavior associated with the old organizational paradigm. In the New Organization there may be multiple leadership relationships, but the same people need not always take the lead; in a meritocratic outcome oriented organization, leadership is about expertise, influence, persuasion and ultimately collaboration (Rost, 1993). Individualized consideration will be reflected in the individualization of employment contracts to meet individuals’ unique needs and preferences. Some features of transactional leadership, however, remains. Variable compensation policies and performance-related pay have already signaled the end of the age of entitlement and its succession by the age of achievement. The need for individualized consideration will mean that individuals’ employment contracts in respect of fixed and variable pay and benefits will relate, within a general context of equity, to individuals’ own needs and expectations. The post-bureaucratic form of organization involves a reinvention of organizational cultures. Transformational leaders develop a shared vision, make explicit and challenge prevailing, mental models, and foster more systemic patterns of thinking, focusing on relationships and opportunities for leverage (Senge, 1992). Such leaders create a learning organization, which facilitate the learning of all its members and continuously transforms itself (Pedler, Burgoyne and Boyd, 1991), and in which people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free and where people are continually learning how to learn together.

13.4 Human resources aspect of the new paradigm design

Organizations are like families in the human relations paradigm according to Bolman and Deal (2001). Principal aspects of the human relations model include the concept that people need organizations and organizations need people. Moreover, the extent to which the organization and the people are aligned determines the degree to which the organization performs. Similar to the structural model, the human resource or natural model will be applied differently to the two functional sections of the organization. The administrative section should be recognized primarily as a social group which is motivated by feeling, sentiment and social
commitments to colleagues more than self interest. It decentralizes control yet creates a hybrid organization as proposed in Powell (1987). This hybrid organization has some centralized functions such as direction and goals which come from the top, while most of the functions in the network nodes are determined by the environment and are not centralized. Additionally, future uncertainty reduces the accuracy of planning which creates a need for increased communications. This new paradigm provides a decentralized structure which decreases the need for information. Moreover, a rational administrative section will increase the capacity to communicate.

Amburgey and Rao (1996) determined that organizations evolve in reaction to environmental change. The new paradigm splits the organization along functional lines and provides different levels of organizational theory for structure, human relations and politics to best accommodate the mission and the future environment (Scheid, Kevin, 2008).

Research on the employment relationship reflects both new employment arrangements and the by-products of transition. The shift to organizing is evident in the weaker role of hierarchy and greater decentralization of personnel practices, the role of strategic and environmental factors in shaping incentives for workers and work groups, and generally increased turbulence and uncertainty in employment. Central themes include rewards available from labor force participation and performance, how workers understand new psychological contracts, and the impact of these contracts on equity, worker attachment, and other responses. The rewards that motivate workforce participation and performance - such as compensation and benefits, career opportunities, and fulfilling work - are central to research on motivation. Accessing rewards entails issues of who distributes rewards, how they are allocated, and what the parties understand the exchange to mean. Wages are now more sensitive to the influence of local labor markets (Katz & Kruger 1991), while rewards based on seniority have declined. Decentralizing personnel decisions means relations with immediate superiors and coworkers are important in the accessing of rewards. Impression management - particularly with superiors - has been found to impact performance ratings and the ability to access rewards beyond an individual or group’s actual level of performance. Most reward distribution remains mediated by managers, even as their roles shift under self-management. The rewards themselves are changing. Promotions and formal status gains are being reduced and replaced by lateral moves presented as “career-building” assignments (Kanter 1989). In particular, autonomous work groups and job rotation tend to break down narrow job descriptions and reduce the number of job titles, a process referred to as “broad banding”. Employability, the ability to access alternative work on the external labor market, is replacing job security in some segments. High-involvement work systems have been found to offer job security to valued, highly skilled workers in whom the firm has considerable investments. These shifts are evidence that external labor-market factors drive employee experiences within the firm (Rousseau, Denise M., 1997).

In the fast few years a seemingly endless stream of academic literature and advertisements, as well as popular books and videotapes which tout the benefits of diversity in the workplace have filled bookshelves and the airwaves. Increased diversity has been suggested to enhance problem solving capabilities of a group, to provide better service to adverse customer base, and to boost organizational creativity. Although affirmative action and its consequences are in some cases negatively portrayed, the successor of affirmative action, diversity management, has been suggested a crucial element in organizational survival. Cox and Blake (1991) argue that effectively managed workplace diversity can create a competitive advantage in the areas of cost, recourse acquisition, marketing, creativity, problem-solving, and organizational flexibility. Managing diversity may result in higher organizational productivity, and ultimately in higher profit. Diversity management has been considered a new organizational paradigm. In that it moves beyond a human resource model based solely on legal compliance to one that suggests there is inherent value in diversity. Cox (1991) describes an organizational continuum in terms of diversity initiative implementation, comprised of three types:

- monolithic,
- plural and
- multicultural.

In monolithic organizations, the extent of commitment to affirmative action is the existence of an affirmative action plan. In plural organizations, minorities may be more aggressively recruited and promoted but
are ultimately expected to assimilate into the dominant culture. Plural organizations espouse affirmative action to the exclusion of initiatives which promote true employee integration. The multicultural organization represents the ideal, a place in which differences are appreciated and used to gain competitive advantage. Cox and Blake (1991) identify the following arguments of managing cultural diversity to achieve competitive advantage:

1. cost - reducing turnover and absenteeism;
2. resource acquisition - attracting the best personnel as the labor pool shrinks and changes;
3. marketing - bringing insight and cultural sensitivity to the marketing effort;
4. creativity - increasing creativity and innovation;
5. problem solving – bringing a wider range of perspectives and more thorough critical analysis;
6. system flexibility – reacting to environmental changes faster and at less cost.

Organizations featured as diversity leaders view valuing differences as a total cultural change, rather than as an isolated component of organizational policy designed to satisfy governmental mandates. CEOs of these organizations believe that diversity management makes sense both from a perspective of justice and a perspective of improving the ‘bottom line.’

An example of good diversity managing could be stated. The diversity program at Xerox was initiated at the top. From the founder, Joseph Wilson, to CEO Paul Alaire, managerial attention to increased work force diversity has been mandated. CEOs at Xerox have considered proactive attention to diversity both a social responsibility and a sound business strategy. Xerox’s approach has gone far beyond the limits of affirmative action. Xerox was one of the first organizations to use caucus groups (discussion and advocate groups representing ethnicity, sexual orientation, gender, and race) to advance the platforms of minority employees through direct communication with top management. Diversity training for managers, compensation equity, career development and human recourse strategic planning are also emphasized. Xerox is committed to achieving a balanced workforce, with the goal of parity in representation of all employees in all job categories. Through planned change efforts, the diversity of Xerox workforce has been maintained even though downsizing has occurred. At Xerox organizational commitment to diversity was initiated by the CEO. The transformational leadership skills of these CEOs acted as a catalyst to organizational change. They were able to convince their organizations that managing diversity was a business imperative and a moral obligation and not simply a governmental mandate. CEOs at the above mentioned organizations galvanized their work to take diversity seriously through moral persuasion, through personally surveying change efforts and through concerted efforts to change employees’ awareness of key issues. Xerox changed their mission statements and strategic plans to incorporate diversity related goals and subsequently demonstrated their commitment to diversity through initiating organizational cultural change. Management must have both an understanding and a commitment to including ethical principles in the decision making process. A clear view of these principles and how they relate to diversity management can facilitate appropriate and relevant diversity management decisions. Service based economy requires employees who can successfully relate to customers in diverse markets, while an increasingly global marketplace necessitates cultural understanding on the part of vendors and customers alike. Organizations which do not make diversity a strategic objective may experience inability to sell in diverse markets, a tarnished organizational image as a result of discriminatory lawsuits, and ultimately, demise (Gilbert, Jacqueline A., Bette Ann Stead, John M. Ivancevich, 1999.

13.5 Downsides of postmodern organization

In organization with loosely defined goals, watered organizational culture, low-level of self-discipline, insufficiently capable leadership, the application of this concept may result in anarchy and chaos. This may lead to increased costs of decision-making and decision-implementation. The employees are subject to greater load of responsibility and stress. Workers are held responsible for outcomes that were once the exclusive responsibility of supervisors and managers. For instance, JIT system, although featuring improvements in flexibility, cost effectiveness, level of quality and employees’ participation, brings immense pressure on workers. One of the most stressful aspects of everyday work was related to late deliveries. If deliveries did not arrive on time, the production process is slowed down and targets could not be met. Similarly, adoption of new paradigm requires from factory workers to learn advanced methods of statistical control (in order to
track production) and ‘problem-and-defect identification’, and to train to work under the pressure. All these practices speed up production processes and eliminate any idle time. They “pump work out of workers”, usually without tangible additional compensation. This is supplemented by insecurity of job place, because layoff schemes are very often. New jobs are open predominately to young, highly educated people, who have advantage over long-employed manual operators. This obviously generates new form of inequality inside the company, besides still existing sex, class and racial tensions. Also, many workers have developed an attachment to standard operating procedures and may be resistant to new practices. Long time ago, Erich Fromm noticed that “many, if not most people thrive on predictability and routine”. This is a strong motivation for individuals to engage in socially established institutions and routines (for example, in the institution of marriage). Some authors argue that the resistance was not simply a matter of job (in)security or new remuneration schemes, but, more importantly, was a consequence of “emotionally charged concern to preserve the established working practices and arrangements…and established sense of self-identity”1. Obviously, the future is getting more blurred, and the support systems that formerly provided individuals with a deeply established sense of self-identity and direction (such as relatively stable family life and relationships, schooling, cultural practices, career ladder or working arrangements) are changing fast. However, Knights believes that the flexible organization needs “a flexible self with little or no attachment to secure and stable identities” (Ezzamel, M., Willmott, H.C., Worthington, F., 2001). Indeed, changeable tasks, roles, positions and projects render identities less stable and more impermanent and transitory.

The frequent defense mechanism of dissatisfied workers is indifference to their working situation. The psychological distancing from the working reality serves to preserve and protect the subjectively established image of self.

13.6 Summary

Around the 1960s and on to today, the environment of today’s organizations has changed a great deal. A variety of driving forces provoke this change. Increasing diversity of workers has brought in a wide array of differing values, perspectives and expectations among workers. As a result of the above driving forces, organizations were required to adopt a “new paradigm”.

Postmodern organization has recognized the necessity of introduction of more adaptable arrangements, such as homework, teamwork, cross-training, job switching, multiskilling and multitasking, subcontracting, outsourcing, contingent employment contracts, etc.

According to D. Lonar, organizations are becoming flatter and information technology enables communication in all possible direction. Furthermore, organizations are striving for more decentralised structures with higher employee empowerment. In contrast to bureaucratic concept, which insists on limited responsibility, new organizational paradigm suggests that everyone takes responsibility for the success of the organization as a whole. The prerequisite for this is integrating people around organizational mission and strategy.

N.H. Chorn believes that according to the new paradigm today’s organizations can be defined by five key characteristics: vision before analysis, individual oriented, fluid teams, decentralization and empowerment, indirect controls.

New organizational and leadership paradigms are in the Transformational Leadership and the New Organizational Paradigm. One of the defining characteristics of a neural network is the absence of a single principal or leading node; functions and roles shift with the problem being addressed. Leadership and innovation are not only concentrated at the top of the hierarchy; they expect everyone, at all levels, to exercise leadership and bring value to the enterprise. Leaders become more effective in managing a more diverse, global workforce, and concentrating on collaborative strategies to help leaders harness resources from throughout the company while successfully motivating employees to achieve business goals. Leadership for the new millennium is witnessing a paradigm shift. It means scenario thinking, providing a compelling vision of the possible future, showing the way through rational strategies, truly empowering people through individualized consideration and intellectual stimulation, developing their competencies, providing appropriate resources and opportunity, and inspiring people to want to do the things that enable the organization to attain
its vision. ‘Lead the people, but let them manage themselves’ is the new imperative. Such leaders create a learning organization, which facilitate the learning of all its members and continuously transforms itself, and in which people continually expand their capacity to create the results they truly desire.

The new paradigm splits the organization along functional lines and provides different levels of organizational theory for structure, human relations and politics to best accommodate the mission and the future environment. Research on the employment relationship reflects both new employment arrangements and the by-products of transition. The shift to organizing is evident in the weaker role of hierarchy and greater decentralization of personnel practices, the role of strategic and environmental factors in shaping incentives for workers and work groups, and generally increased turbulence and uncertainty in employment.

New organizational paradigm suggests that key to competitive success is diversity. Today’s leading companies uniformly see diversity as an advantage. The top companies have broadened their view of a corporation’s responsibilities toward its own workforce, and to the societies and environments in which it operates. Cox and Blake argue that effectively managed workplace diversity can create a competitive advantage in the areas of cost, recourse acquisition, marketing, creativity, problem-solving, and organizational flexibility. Increased diversity has been suggested to enhance problem solving capabilities of a group, to provide better service to adverse customer base, and to boost organizational creativity. Organizations featured as diversity leaders view valuing differences as a total cultural change, rather than as an isolated component of organizational policy designed to satisfy governmental mandates. Organizations which do not make diversity a strategic objective may experience inability to sell in diverse markets, a tarnished organizational image as a result of discriminatory lawsuits, and ultimately, demise.

However, there are downsides of postmodern organization. The employees are subject to greater load of responsibility and stress. Similarly, adoption of new paradigm requires from factory workers to learn advanced methods of statistical control (in order to track production) and ‘problem-and-defect identification’, and to train to work under the pressure.

New jobs are open predominately to young, highly educated people, who have advantage over long-employed manual operators. This obviously generates new form of inequality inside the company.
**Review Questions**

- How can be the organizational paradigm defined?
- How can be an organization defined according to new organizational paradigm?
- What kind of leadership presupposes the new organizational paradigm?
- What kind of organizational structure is suitable to new organizational paradigm?
- What the diversity in organization means to you?
- How are employees’ roles changed according to new organizational paradigm?

**References**

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14 GLOBALIZATION AND ITS IMPACT ON ORGANISATION

14.1 Introduction

Globalisation can be referred to as a phenomenon, a process, a state or a concept. It has evolved partly due to the trend for increasing international trade across national boundaries and the conduct of business activities in more than one country—and because of the changes in the various aspects of the international business environment has its impact to organization.

Organizational change is the adoption of an organizational environment for the sake of survival. Namely, the old principles no longer work in the age of Globalization. Businesses have reached the old model’s limits with respect to complexity and speed. At the same time, the challenge which new economy brings to small businesses managers is the use of new business approach and the strong will for organizational changes and adaptation to global market demands. There are several types of organizational changes that can occur—strategic changes, organizational cultural changes; involve organizational structural change, a redesign of work tasks and technological changes. In line with these changes, there is strong expectation of employee to permanent improve their knowledge and become an integral part of successful business formula in order to respond to the challenges brought by the global economy (Robertson, Roland (1992). It means a request for learning organization which is characterized as an organization creating, gaining and transferring the knowledge, and thus constantly modifying the organizational behavior.

14.2 Globalisation

Globalization involves the movement of people, goods, ideas and information across national boundaries. It has been defined as ‘the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away.

The Roman empire, based on militarism, political refinement and technology was in its day, global in its influence. So was the Arab Empire that followed and that brought together the latest in scientific thought. The social, artistic and commercial effects that spread—originally from Italy - during the Rennaisance beginning what historians call ‘the early modern period’ was also an example of globalization. Today it is the globalization of production that is most influential in influencing and moulding relationships. This is based on the integration of economic activities—and economies - on a world scale which is being spearheaded by multinational companies. They do so by integrating production in their different factories around the world into a single manufacturing system. Their aim is to use developments in IT and robotics alongside facilities afforded by the ready movement of financial resources across national boundaries.

14.3 The history of globalisation

The first phase, which peaked in about 1880, was mainly due to improvements in transportation and automation that enabled reliable long-distance trade. Telegraph and telephone communication in the late 1800s facilitated information transfer, which many firms found to be especially useful in managing their supply chains.

Phase two reached its height in the first decades of the twentieth century, when territories under the control of European colonial powers were seen as sites to establish multinational subsidiaries. This period also saw some overseas expansion by American corporations into profitable European markets. This phase is perceived to have ended with the economic crash in 1929, which caused a global depression and a move to inward-looking polices by many governments.

The third phase was based on the lowering of tariff barriers and the resultant increase in international trade after the end of World War II. As individuals, particularly in the richer economies, became wealthier and the austerity of the war years faded, there was massively increased demand for consumer goods. As the largest
and least war-damaged economy post 1945, it was, perhaps, inevitable that the USA would become the most
dominant power in terms of globalisation.

The fourth (and final) is determined by, first, changes in technology, such as the widespread availability of
the personal computer (PC) linked to the internet/world wide web, the increasing use of mobile communica-
tions and the development of robotics both for tracking component sand finished goods and in the automa-
tion of production. Bear in mind, also, that these factors have not only affected manufacturing industry; the
service sector, for example banking and tourism, have also benefited from these changes. Distance is no
longer an issue – the world has shrunk to a manageable size. The second factor is the change in political
attitudes and economic policies that have allowed companies (and consumers) to take advantage of these
 technological advances. It is apparent that there has been much convergence of global economic think-
ing, with many more countries moving towards an acceptance of liberal, free market ideas. Social trends
changed, too, as consumers apparently became less concerned with products’ national identities (Marilyn
Carr and Martha Chen, 2003).

14.4 Main features of globalisation

The word „globalisation“ is so commonly used in the media. It has become a buzzword used to denote both
good and bad things. For some, globalization is synonymous with the spread of free market capitalism. For
others, it is the source of economic domination and oppression of poor nations by rich ones. What both ad-
vocates and adversaries of globalization share is a focus on economic aspects. It is important to mention the
main characteristics of the globalisation (. Stacey, R.D. 2007):

Globalization is a set of processes of social change. A process can be defined simply as a series of develop-
ing changes. In this sense, globalization is the process of becoming global, but not yet complete. In other
words, there is so far no globality, that is, the condition of being global. There is no global society. There are,
however, processes that point in that direction. These processes are multiple and cover most areas of social
life and human relations such as economy, polity, culture, ideology, religion. Since globalization is a work-
in-progress, the end result – what a global society would look like – is yet undetermined. What is obvious
though, is that globalization involves changes in conceptions of space as part social relations.

One of such processes central to globalization is deterritorialization. This convoluted concept simply con-
veys the idea that, under conditions of globalization, territory becomes less relevant to human relations. For
instance, thanks to information technology, anyone in the United States equipped with a computer and an
internet connection can play the stock market in Tokyo, chat online with friends in Canada, upload or down-
load all sorts of information and data from any place in the world from other individuals similarly equipped,
as well as watch Al Jazeera (a television network from Qatar, in the Arabic peninsula) via satellite. Territo-
ries and borders have become irrelevant to such interactions that are therefore global in nature. The process
of deterritorialization is what makes globalization different from any other processes of social change in
human history. When one America individual exchanges instant messages with someone in another country,
this instantaneous interaction erases distance and occurs as if these two individuals were in the same place,
a virtual space. Time and space have therefore been compressed through the technological creation of a
virtual space of interaction unaffected by distance. The real physical distance between these two individuals
is covered, literally, in no time.

Globalization involves a process of stretching or extension of human activities, relations and networks
across the globe. Events taking place in one part of the world have an impact for other people in distant loca-
tions, a process akin to the butterfly effect. For instance, the Al Qaeda terrorist network has no known central
headquarter located in a specific territory but is a global network that has conducted terrorist activities in
many different countries. Less devastating is the extension of economic activities and financial transactions
on a worldwide scale.

Globalization involves a process of intensification of human activities and relations. Intensification refers
to the sheer magnitude of existing global relations. More and more aspects of our lives are tied, in one form
or another, to locations and peoples in other parts of the world. Most of our consumer goods were manufac-
tured and assembled in different places. We are also more intensively connected to the whole world through
a growing number of treaties and agreements that cover practically every area of social relations, from human rights to environmental statutes to the production and sale of weapons of mass destruction. In a sense, we are all embedded in an increasingly dense global network of global regulations.

Globalization involves a process of speeding up, or increasing velocity, of human activities and relations. Developments in technologies of transportation and communication have accelerated the speed of social interactions as well as the diffusion of material goods and ideas, money and people.

Globalization involves specific impacts on different societies. This refers to the way globalization constrains choices that can be made by governments, corporations, households or individuals. For instance, a government might hesitate to impose an increase in minimum wage if it is faced with the relocation of jobs in areas where labor costs are cheaper. Impact also refers to the way the effects of globalization are felt differently by different categories of people. If Ford decides to close a plant in Michigan and open one in Mexico, American workers, shareholders and Mexican workers will all experience different effects, which leads us to the next characteristic of globalization.

Globalization produces winners and losers. Globalization produces new patterns of inequalities. Some categories of people benefit from it, but others are hurt. In this sense, globalization involves interconnectedness, more than interdependence. Interdependence conveys a sense of equality (I depend on you, you depend on me). In the case of contemporary globalization, there is no such equality. Global relations are asymmetrical. Certain parties are dominant (western countries, multinational corporations), others are subordinate (indigenous populations, women). As a result, globalization has become a heavily contested process, with its supporters and adversaries. Different groups and organizations try to influence governments and corporations as well as other powerful institutions to shape globalization according to their conception and values. As a result, global ideologies have emerged to provide intellectual underpinnings to such social movements.

Globalization involves a process of reflexivity, that is, the growing awareness of living in a single global space. People are more and more aware that many phenomena that affect our lives have global ramifications. For instance, most of us are aware of the dangers of global climate change or the depletion of the ozone layer. Such environmental consciousness is global by definition because it involves the realization that we are all interconnected on “spaceship Earth” and have no other place to go. In other words, people of the world, irrespective of their differences, share a community of fate.

As a result, more and more people realize that “we’re all in this together” and that the promotion of narrow self-interest (such as the enormous consumption of natural resources by western countries) is ultimately putting the entire planet at risk. In other words, to be globally reflexive means to integrate global elements into one’s identity and sense of self and to act upon such elements (for instance, through recycling or giving money to global charities, or by demonstrating against sweatshops in Bangladesh).

14.5 The impact of globalisation on organisation

When two or more people get together and agree to coordinate their activities in order to achieve their common goals, an organization has been born (Wikipedia, definition of organization). There is really no doubt about the present meaning of organization. Its purpose is to create an arrangement of positions and responsibilities through and by means of which an enterprise can carry out its work. It must be emphasized that an organization should not be seen as rigid as the term “framework” implies. In reality, almost all organization structures must be occasionally reviewed due to various changes in the external environment of the organization in question. Moreover, internal changes also occur oftentimes due to the development of various informal relationships.

However, in order to develop a so-called science of organizations a conceptual framework of theory and principle must first be developed. It is true to state that principles of management have existed for a long time. These principles were not recorded as scientific truths, but simply applied as practical means to accompany the process of modernization. As societies became more complex, an acceptable framework to encompass the “unscientific” principles of management was needed. Since the nineteenth century, many writers and researchers have contributed a great deal to existing principles and accepted practices. It is in the
formulation of principles that the science of management can be developed. A management principle distils and organizes knowledge that has been built up through experience and analysis.

14.6 Globalisation changes the rules of the game

Globalization, generally defined as a conflation of ideas encompassing free flow of international trade, global technology etc. is widely cited as one of the main sources of the shift in the dynamics of the employment relationship: moving away from a state of predictable security, in terms of one’s tenure in an organization, to the ever-changing, ever-competing reality of flexible careers. Globalization obliges organizations to seek flexibility in the management of their human resources. This has led to a growing number of organizations opting for the use of contingent workforce, such as short-term, part-time, ad-hoc and contract staff. Other alternative forms of worker representations are also adopted, namely human resources initiatives, employee involvement programs, teams and quality circles, total quality management etc. Indisputably, globalization heralds in a new era in the employment relationship by introducing new opportunities and birthing new innovations. It has also been stated to contribute to economic growth in developed and developing countries, through increased specialization and via the principle of comparative advantage (S. Lall, 2002).

The world seems to be revolving faster with every blink of the eye. Geographical boundaries, hitherto obstacles to business expansions, are being eroded or blurred by the virtual world and new innovations in communications. The Internet with its social media platforms, (Facebook, Twitter, LinkedIn, Myspace etc.), is revolutionizing the way we communicate and interact with each other on a personal level and via business networking. Platforms utilizing Voice Over Internet Protocol (VoIP) systems, as well as devices for video conference calls, Skype etc. (which have either drastically cut, or even eliminated the cost of long-distance calls), have made it easier for businessmen based for example, in the United States, North America, to close deals in the Singapore, Far East Asia. Employment opportunities rooted in ‘traditional’ industries, (such as oil, timber, finance, health, construction, manufacturing and engineering), give rise to new positions in ‘young’ sectors, (such as alternative energy, biotechnology, nanotechnology, etc.).

14.7 Ideas of post-fordism and post industrialism

Before describing the impact globalization has had on work and organizations, it may be useful to briefly speak about the central ideas of Post-Fordism and Post-Industrialism. Fordism refers to ideas and principles propagated by Henry Ford: mass production of uniform goods and a market for this, rigid technologies like the assembly line, unvarying work routines (Taylorism), and increasing productivity through economies of scale, deskilling and intensification. It is believed that Fordism began to decline in the 1970s, replaced by Post-Fordism. The distinctive characteristics of it are as follows: declining interest in mass products, growing interest in customized products, consumers willing to pay more for high quality and easily noticeable goods, shorter production runs, flexible production, flexible management, more capable workers with greater autonomy and responsibility, and greater differentiation in society and the workplace.

The post-industrial organization is characterized by: flattening in hierarchy, blurring of boundaries between organizations, an organization structure that is more integrated and less specialized, lack of rules to govern behavior, selection of employees based on their potential for creativity, and customized work and products (Edmondson, A., Roberto, M. & Watkins, M. 2003, 297-325).

Multinational corporations have begun to focus principally on brands and brand management, believing that while products are made in factories, a brand is made in the mind and bought by the consumer. A brand is an idea, a lifestyle, and an attitude. The result is innovative campaigns, superstores and corporate campuses, but also a change in the face of global employment. Superbrand companies focus on first creating the ‘soul’ of companies and then removing the burdensome bodies of employees, factories and machines. Making a superbrand is costly: after money is spent on sponsorships, ‘cool hunters’, ‘marketing mavens’, and branding, removing cumbersome bodies is crucial for cost effectiveness, or more clearly, profit. Priorities have changed; the logic of the new priority is not to spend money on machines that will rust, factories that need constant upkeep, and employees that will age and die; resources should be used on sponsorships, packaging, expansion, and advertising as it is this that will help to build superbrands. This increased resistance to
investing in labor and factories has led to the inevitable devaluation of the production process, producers and employees.

It was Team Nike that initiated the no-limits spending on branding, together with complete disinvestment in its workers. As Phil Knight says: “There is no value in making things any more. The value is added by careful research, by innovation and by marketing”. Nike is the epitome of the product-free brand. Major companies embraced the very successful Nike model: The future belongs to companies that own little but sell much”.

14.8 Neoliberalism

In short, what globalization has done by way of neoliberalism is, put “profit over people”. Neoliberalism is the current economic paradigm that, by protecting the interests of the very wealthy and less than a thousand corporations, allows them to control public and social life so that their personal profits may be maximized. It emphasizes free markets, prices being set by markets, the liberalization of trade, privatization, and consumer choice. The government is believed to be parasitic, and unable to do any good, and is thus undermined. Lowering taxes on the wealthy, the exploitation of the weak and poor, environmental violations, dismantling of public education and social welfare have all not ‘needed’ to be defended, because, as is stated, “any activity that might interfere with corporate domination of society is automatically suspect because it would interfere with the workings of the free market”. The results of the neoliberal regime are wide-ranging, including: a huge increase in social and economic inequality, significant growth in extreme deprivation for poor nations and its people, an unstable global economy and of course, an increase in the bank balances of the wealthy. The defense that is provided is the trickle-down theory, discussed above (Edmondson, A., Roberto, M. & Watkins, M. 2003, 297-325).

14.9 The impact of globalisation to organisation- basic impact: planning and bussines relations

Effective planning is essential for any organization. Leadership must establish the visionary path for the organization, and it is up to management to ensure that plans stay on track. In a closed environment, except for establishing the vision, this can be a relatively simple process because the variables affecting implementation can be predicted and tend to fall into relatively easy to identify categories. Globalization greatly complicates this process. Take, for instance, a company that manufactures a product that is planning an expansion of its product line. Establishing a clear vision in a closed market is a matter of understanding the environment and customers, and for a company that has been in business for a while, this should be a fairly simple matter. When globalization enters the picture, the process of determining proper direction is complicated by the diverse environments and customer base that must be taken into account. In the same manner, management implementation has to balance a large number of diverse and sometimes competing factors.

Motivating and managing personnel is always a juggling act, as leaders and managers have to adjust actions and policies to take into account such factors as ethnicity, gender, physical ability and the like. Globalization has created a workforce, especially in such industries as IT, that has added the cultural and language factors to the puzzle. Establishing personnel policies and procedures that takes all this into account requires a high degree of sensitivity and at times the Wisdom of Solomon.

One of the major problems in our society is the presence of part-time jobs. Organizations see it as a way to avoid benefits and overtime, keep wages low, and evade commitment, finding innovative ways to make the most of their ‘almost full-time’ employees, reducing their hours and at the same time maximizing their efficiency and productivity. Moreover, by hiring workers on temporary contracts, companies are bypassing the laws that provide benefits to workers and that prevent them from firing without cause. The nature of temporary work is also changing, in that it is no longer temporary. Agencies now provide companies who do not want to commit to full-time workers, the opportunity to staff entire functions and divisions with temporary workers, as well as carrying out the administration and management of the task, allowing companies to focus their time, energy and resources on the core business.
The rise of the global economy means a radical change in work and organizations. Furthermore, because they have not only affected work, but also democracy, communities, culture and the biosphere, they have given labor, human rights and environmental organizations a way to put together issues and see it as one major problem. It is also no longer about personal grievances against the nature of work, it is about “an economy that consistently and unapologetically puts profits before people” This has resulted in the new generation of workers growing up self-reliant, with lower expectations and the belief that they will receive nothing from anyone, leading to them being “greedier, tougher, more focused”. In addition, casual, part-time, temporary, and low-wage work does not create commitment and loyalty, and it is among these workers that anticorporate backlash will probably be found.

In this manner, the new market and principles that operate under globalization (and Post-Fordism and Post-Industrialism) has not only seen the disappearance of full time work, to be replaced by outsourcing, temporary workers, and a new kind of workforce which is highly unstable and detrimental to workers; it has also seen the emergence of a new kind of organization, one in which domination, control and power is so subtle and so well manipulated, that employees are completely unaware of it.

Globalization continues to present unprecedented challenges to the strategic leadership of many organizations. Effects of globalization are not only confined to global enterprises. Indirect effects on locally-oriented organizations are equally significant. Similarly, such organizations often unintendedly affect the external environment in many ways.

From an organizational perspective, there are several principal drivers of globalization. Technology has overcome challenges of dealing with spatial space and time to provide a vehicle for real-time communications and information access. Technology is a major discontinuous change agent that has rendered conventional economic and business models insufficient in explaining emerging phenomenon. Cutting-edge technology has provided a platform for standardization and optimization of internal efficiencies in many industries.

Capital is multipliable and globally accessible through innovative financial instruments. Financial derivatives have been bundled to manage risk in exotic markets that were hitherto inaccessible (Hambrick, D, Geletkanyez, M. & Fredrickson, J. 1993, 401-418). These factors along with other conditions have led to new and emergent forms of organizations. Off-shoring of jobs across the board, strategic alliances, virtual employment and contingent workers are some of the conditions that have rendered generic organizational structures less efficient in sustaining firm competitiveness. Global strategic leaders cannot effectively navigate the new terrain armed with traditional leadership characteristics. Evidently, strategic leaders require a unique set of attributes to confront these challenges. Global strategic leadership is in need of a new set of unique characteristics, which, when leveraged will enable them confront global challenges effectively. Ultimately, even strategic leaders managing firms that operate in local environments are not immune from the effects of globalization and must develop coping skills.

### 14.10 Changes in leadership

In recent times, there has been considerable interest in effectiveness of strategic leadership, especially in managing organizational change and sustaining new forms of organization structures. In order to gain a better understanding of the functioning of organizations, it seems logical to understand essential characteristics of a top leader that would make a difference in terms of how strategy is crafted and executed. Essential characteristics are attributes and qualities necessary for a strategic leader to perform his role effectively. Previous strategic leadership studies have borrowed heavily from other fields, notably organizational behavior and psychology. While providing deep insights into leader characteristics and behavior, such studies have not been integrated into an overarching framework that can be used to chart a strategic focus and predict quantifiable organizational outcomes. Emerging global dynamics have not been integrated into the framework. Strategic leadership provides a viable link between the dynamics of globalization and internal organizational variables. Through effective leadership, the organization can effectively process and make sense of effects of globalization. Strategic leadership challenges require specific characteristics for a strategic leader to be effective in creating a focus that will meet organizational objectives while navigating the global economy. They are trying to create and identify a combination of specific strategic leader characteristics that are nec-
necessary in sustaining a global strategic focus and organizational fit with its environment. Strategic focus is an emphasis, by the strategic leader, on key organizational plans and actions necessary for both short term and long term performance and survival of the organization.

The strategy must be set up between the organization and the global environment, balance between short term goals and long term objectives from a variety of stakeholders and ensure that the two themes are effectively executed within the organization. In the turbulent global economic environment, strategic focus is hardly in a stable state. Effective strategic focus calls for the strategic leader to maintain a reasonable equilibrium between the organization and relevant environmental variables to the extent that the organization is able to sustain competitiveness. To succeed, the strategic leader needs a minimum repertoire of characteristics that can be effectively enacted at various stages of the strategizing process.

One of the essential characteristics of strategic leadership is absorptive capacity (Hambrick, D, Geletkanyez, M. & Fredrickson, J. (1993, 401-418).

The firm’s absorptive capacity is derived from the individual absorptive capacity of boundary spanners and gate keepers in key parts of the organization. The development of organizational absorptive capacity would present daunting challenges without positional legitimacy, a deliberative attitude to infuse new paradigms, and communications tools to provide linkages with the rest of the organization. These responsibilities cannot be delegated down the organizational hierarchy or diffuse within the organization organically from their origins.

A second critical characteristic for strategic leaders is future orientation and the ability of strategic leaders to be futuristic by being independent of their organizations for a sense of who they are, having the audacity to cause chaos and take risks in the present time in order to sustain future viability. A future orientation is also essential in anticipating and proactively predicting future competitive conditions and challenges. Key leadership behaviors include articulating a future orientation and an inspirational vision based on powerful imagery, values and beliefs.

Propensity to take action is a critical component of strategic leader characteristics, because seismic organizational events occur around strategic inflection points strategic leaders need to time strategic actions around these events to achieve maximum impact. It can be effected by major global events, changes in technology or new products that offer opportunities to refocus or minimize the effects of adverse conditions. The choice of where and when to take strategic action is as important, if not more important, than the strategy itself. Strategic leadership qualities as the ability to shake up the organization and create chaos as a short-term prescription for future benefits.

Risk-taking is a fundamental requirement for effective leadership at all levels. Risk-taking needs to be distinguished from uncertainty from the onset. Risk-taking involves cost-benefits of strategic choices in the context of incomplete information. It plays a significant role in the current global environment which is abundant with new opportunities with high risk on the downside (Edmondson, A., Roberto, M. & Watkins, M., 2003, 297-325). Risk-taking is the necessary force that drives the transition of the organization from maintaining status quo (and waiting to be wiped off the global landscape) or actively engaging competitors in the murky environment of complexity, ambiguity and asymmetric information.

Globalization and constant changes in the organizational environment call for new was of providing effective strategic leadership in organizations. This understanding makes a contribution by providing a conceptual framework that integrates strategic leader characteristics with strategic focus within such a context. Strategic leadership demands more specialized and focused leadership that has been hypothesized in the past. Strategic leadership studies that have borrowed leadership characteristics from other disciplines have not addressed the fit between such characteristics and emergent global demands. Essential strategic leader characteristics necessary in dealing with global challenges are; future orientation, propensity to take action, propensity to take risks, and absorptive capacity. Absorptive capacity enables the strategic leader to renew prior characteristics that have been rendered insufficient in the emerging global economy. Absorptive capac-
Combinatory effects of strategic leadership characteristics provide the CEO with the necessary capabilities for constant alignment with changing conditions and effective strategic focus.

14.11 The „globe“ project

GLOBE is the acronym for “Global Leadership and Organizational Behavior Effectiveness”. The GLOBE researchers studied leadership worldwide; they defined leadership as “...the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organizations of which they are members”.

It is a research project involving 62 societies around the world. Over 160 social scientists and management scholars representing all major regions of the world are engaged in this programmatic series of cross-cultural leadership studies. The GLOBE findings presented here are based on surveys of over 17,000 middle managers in the banking, food processing, and telecommunication industries in 62 cultures. In the mid-1990s, participating managers were asked to report their perceptions of the cultural practices and values in their countries. Practices were measured with survey items assessing “what is” or “what are” common behaviors and institutional practices in society. They represented the way things were currently done in a culture. Values were expressed in response to the same questionnaire items in the form of judgments of “what should be.” They reflected the respondents’ desires and aspirations in terms of the way things should be done (Chandler, A. 1962).

The goal of the GLOBE project is to develop empirically based theories to describe, understand, and predict the impact of specific cultural variables on leadership effectiveness and organizational cultures in societies. GLOBE defines culture as “shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives and are transmitted across age generations.”

GLOBE developed nine dimensions for comparing the different societal cultures of the world (http://www.google.hr/webhp?hl=hr&tab=Tw&q=karakteristike#hl=hr&tbo=d&sclient=psy):

1. Power Distance Degree to which a culture’s people are (should be) separated by power, authority, and prestige. Power distance refers to the extent to which a collective maintains inequality among its members by stratifying individuals and groups with respect to power, authority, and prestige (sample item: “Followers are (should be) expected to obey their leaders without question.”). The range of scores for both practices and values is from 1 (very low) to 7 (very high). A score of 2 means low practices or values of power distance; a score of 6 means high practices or values.

2. In-Group Collectivism Degree to which a culture’s people (should) take pride in and (should) feel loyalty toward their families, organizations, and employers. In-group collectivism refers to the extent to which members of a society take pride in membership in small groups such as their family and circle of close friends, and the organizations and units in which they are employed (sample item: “Employees feel (should feel) great loyalty toward this organization”). Interestingly, in all cultural clusters, in-group collectivism is valued quite highly (range between 5 and 6). However, the perceived cultural practices differ more strongly. Most European cultural clusters (Nordic, Germanic, Latin) and the Anglo cluster endorse in-group collectivism to medium (4) or somewhat high (5) extent. They are the most individualistic cultures. In these European clusters we found a desire for more in-group collectivism.

3. Institutional Collectivism Degree to which individuals are (should be) encouraged by institutions to be integrated into broader entities with harmony and cooperation as paramount principles at the expense of autonomy and individual freedom. It refers to the degree to which individuals are encouraged by societal institutions to be integrated into broader entities. In more collectivist societies, harmony and cooperation are paramount whereas in more individualistic countries, autonomy and individual freedom are more stressed (sample item: “Leaders encourage (should encourage) group loyalty even if individual goals suffer”).
4. Uncertainty Avoidance Degree to which a culture’s people (should) seek orderliness, consistency, and structure. Uncertainty avoidance refers to the extent to which members of a collective seek orderliness, consistency, and structure to cover situations in their daily lives. It reflects society’s reliance on social norms and procedures to alleviate the unpredictability of future events (sample item: “Most people lead (should lead) highly structured lives with few unexpected events”). There is a negative correlation between As Is and Should Be scores evident. Most prominently, the Germanic and Nordic European clusters score on the high end of the distribution for uncertainty avoidance cultural practices (As Is) and show much lower levels (even below medium) for uncertainty avoidance in terms of cultural values (Should Be). Eastern European, Middle East and Latin American cultures score below medium in uncertainty avoidance cultural practices and high on the respective cultural values.

5. Future Orientation Degree to which a culture’s people are (should be) willing to defer immediate gratification for future benefits. It refers to the extent to which individuals engage in future-oriented behaviors such as delaying gratification, planning, and investing in the future (sample item: “More people live (should live) for the present rather than for the future,” scored inversely). All country clusters range around the medium between 3.5 and 4.5 for Future Orientation practices and range between 4.8 and 6.0 in terms of their future-orientation values.

6. Gender Egalitarianism Degree to which a culture’s people (should) support gender equality. Gender egalitarianism refers to the degree to which a collective minimizes gender inequality (sample item: “Boys are encouraged (should be encouraged) more than girls to attain a higher education,” scored inversely).

7. Assertiveness Degree to which a culture’s people are (should be) assertive, confrontational, and aggressive. Assertiveness refers to the degree to which individuals are assertive, confrontational, and aggressive in their relationships with others (sample item: “People are (should be) generally dominant in their relationships with each other.”).

8. Humane Orientation Degree to which a culture’s people are (should be) fair, altruistic, generous, caring, and kind toward others. refers to the degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others (sample item: “People are generally (should be generally) very tolerant of mistakes”). In all country clusters, Humane Orientation cultural values are highly endorsed (all range around 5.5). However, in terms of Humane Orientation cultural practices there is strong variance between the cultural clusters.

9. Performance Orientation Degree to which a culture’s people (should) encourage and reward people for performance and refers to the degree to which a collective encourages and rewards group members for performance improvement and excellence (sample item: “Students are encouraged (should be encouraged) to strive for continuously improved performance”).

Cluster leadership translates into an individual or organization leading a cluster. It is mainly based upon cluster rules and resources, cuts across organizational and sometimes even network boundaries, and often aims at mobilizing large numbers of individuals and/or organizations that – together with their relationships – make up the regional cluster. Cluster leadership is most adequately described as relational leadership. This is mainly because of the networked character of (real) clusters. Cluster leadership implies that the cluster – or at least most of its members – are the ‘object’ of leadership. However, for a complete picture, leading in clusters is also important; in this case, which is only touched upon in this discussion, only a subgroup of cluster organizations is targeted in. Leading in a cluster may take a wide variety of forms. For instance, it may aim at making things happen in a dyadic relationship or a more complex network of relationships that, nevertheless, is not identical with the cluster.
In sharp contrast to leadership inside organizations, relational leadership in or of clusters is of a genuinely non-hierarchical nature, often based upon negotiations rather than “commands and controls”, and always crossing organizational boundaries. Obviously, this is not to say that leadership inside organizations is at all times based on command and control but it is always carried out in the shadow of the possibility of hierarchical fiat; this possibility does not exist in clusters.

14.12 Conclusion

Globalization can be defined as growth on a global scale, where business is shifted from national and domestic markets to a worldwide market environment. Globalisation is the attempt to achieve worldwide human interaction through the creation of a global market. Until recently we have seen the exploitation of the developing world by richer countries seeking cheaper resources, leading to temporary wealth in the developing countries but not necessarily enabling them to get a foothold on the ‘ladder’ of development through building their own permanent export businesses, shipping out manufactured products made using their own resources.

It is a phenomenon that has been achieved through (amongst other things) increased global communication, the reduction of trade barriers and the reduction of travelling costs as well as an increase in the quality and efficiency of these methods of transport.

Globalisation could be seen as a gradual trend towards homogeneity where, essentially, in the long run we should see opportunity being the same throughout the entire world, however the ‘global culture’ idea is one that is very far from being a reality, especially since not everybody believes that globalization will benefit them.

We have seen that globalization has had an impact on world trade, but it is not seen as entirely beneficial. There are those that think that globalization has led to an increase in the wealth of the developed countries and has also helped those in poverty in developing countries by the provision of certain policies that promote organizations which can help.

The last decade has witnessed a lot of changes due to the impact of globalization, fewer trade barriers, and the rapid spread of the cyber revolution. All these changes and fluctuations have changed the world of work globally. In response to these changes, organizations and institutions are increasingly realizing the importance of human competitiveness as essential to organizational survival and success, which has created a new paradigm shift as to the ways in which people should be managed. Modern day organizations are in quest of gaining competitive advantage over their competitors and the belief is emerging that human resources are those strategic assets that can lend an organization added value over their competitors, this has also propelled the expansion of contemporary HRM (Ohmae, K. 1989, 152–161). 152–161.

These skills can give organizations a competitive edge and can assist modern day organizations to survive in times of rapid change and in a world that has gone global.

Modern day organizations emphasis that the effective management of human resources is critical to obtaining organizational success. There is also a growing belief that if organizations have to survive and thrive in a global economy, they require world-class human resource competencies and the processes for managing them.

Review Questions

- Globalization is very popular word nowadays. What it means to you?
- How the history of globalization looks like and how many phases are known?
- Which are the main feature of globalization?
- How globalization affect the roles in organization?
- What neoliberalism means to you?
- What kind of changes causes the globalization?
- What kind of different social cultures are known in globe development?
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