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Organization and Change Management

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Preface

Most introductory texts to Business Administration are wide-ranging and are always useful for every business courses and not transferable to any professional environment. This textbook introduces “Organization and Change Management” which are two dominant areas in Business Administration. The authors have developed this document for students and faculty alike, and it aims to support both the learning and teaching requirements of today. It covers the most important methods, tools and approaches and thereby provides a sound introduction to the large field of Organizational Theory. The book focuses on the following questions:

- What is the purpose of organizing?
- What are the possible forms of organizational structures?
- Which approaches for change management exist?
- Which model should be selected for the situation at hand?

To promote successful learning, the text includes **review questions** and **multiple-choice questions**:

- The review questions allow the reader to consolidate the various issues quickly and efficiently.
- The multiple-choice questions help the reader to repeat concepts and content and also to develop the understanding of business principles.

Review questions and in particular multiple-choice questions provide quick feedback allowing students to manage their own learning. Progress is controlled inde-

pendently and easily. While managing their progress, students will immediately be able to identify future learning priorities. The textbook is supported by additional material available on the website www.versus.ch/links.

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Chapter 1

Fundamentals

1.1	Introduction
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1.1.1	Organization as a management tool
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A company needs to be organized to enable a division of labor. This is necessary because several people work together to fulfill the overall goal of the company. Tasks are allocated to employees and groups. The question arises: “What does such a division of labor look like?” As everyone knows from personal experience, e.g., family, school, church, associations, there are several observable forms of organizations and several ways to achieve this division of labor.

Ultimately, a company strives for the most efficient organizational structure. As early as 1776, **Adam Smith** had already compared the effects of various forms of division of labor. In a pin factory, ten workers produced 48 000 needles per day. Each worker performed only two to three tasks and produced 4800 pins per day. If, however, each worker performed all the required tasks to produce one pin, each worker would have produced only 20 pins per day. This example shows that with a clearly defined division of labor and specialization, a higher productivity can be achieved.

Based on this example, organizing, a major organizational task, can be described as follows:

Organizing means that the overall mission of the company, which is jointly performed by employees and machines, is divided into specific sub-tasks. These sub-tasks need to be (efficiently) interrelated so that the organization's goals are achieved optimally.

Certain concerns are associated with any form of division of labor, which can have a positive or negative effect on company performance. For example, an increase in the division of labor often leads to a boost in productivity; however, the following phenomena can also occur:

- A higher level of **dependency**: If an element, e.g., a worker is absent or a machine breaks down in the fragmented, but interrelated production process, production stops. If there is a defined division of labor, then only one element fails and the total amount produced is reduced only by the performance of this element.
- A higher level of **complexity** for the organization: Each task ensures the success of the overall process and must be coordinated carefully. For example, when frontline employees work too quickly, a temporary inventory is created in the production chain and subsequent employees have to work overtime to reduce this inventory.

Therefore, there are **limits** for each division of labor. For example, an extreme division of labor can fail because,

- the **cost** of coordinating becomes higher and offsets the actual productivity gains,
- **technological conditions** (e.g., fully utilized machine park), an additional division of labor is no longer possible, and also
- employees react negatively to the **monotony of the work** which not only causes challenges at the personal level (e.g., demotivation), but also at the company and societal level (e.g., health problems, communication difficulties, frequent job changes).¹

1 Cf. Section 1.5 "Degree of specialization".

1.1.2	Term “organization”
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The term organization has different meanings when used in everyday communication or in the area of business administration. In business, the following definitions are common:

1. **Design aspect:** A company *is organized*. This definition reflects the importance of the work involved in designing the company. Organization in this sense is therefore a **design function**.
2. **Instrumental aspect:** A company *has* an organization. Here, the term indicates that every company has deliberately implemented a structure which enables employees to achieve specific goals for the company. This organization refers to the structures (structural organization) and processes (process organization) of the company. This definition focuses on relationships between employees as well as employees and the physical resources. Moreover, organization in this sense has a **regulatory function**. It serves as a tool to achieve company goals.
3. **Institutional aspect:** The company *is an organization*. This definition is based on the idea that, real world entities are called “organizations” and thus can be investigated by researchers. Besides companies, public companies and authorities, religious, charitable, military and many other social institutions can be subjects of organizational research.

1.1.3	Formal and informal organization
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Formal organization refers to the collection of work groups that have been consciously designed by senior management to maximize efficiency and achieve organizational goals. (Buchanan, 2000, p. 462)

Informal organization refers to the network of relationships that spontaneously establish themselves between members of the organization on the basis of their common interests and friendships. (Buchanan, 2000, p. 462)

A designed organization involves **formal** structures and processes. In addition to these predetermined structural elements, varying degrees of **informal** structures are created in an organization’s reality. These structures can support (complementary structures) or weaken (substituting structures) a formal organization. Possible reasons for these consequences might be:

- the norms and values of an organization,
- human characteristics (e.g., sympathy, common interests),
- social status of the members of the organization,
- the organizational tasks to be solved, or
- working conditions (e.g., time pressure).

In particular, the norms and values that influence the behavior of employees are of great importance. This is referred to as **organizational culture** which is discussed in more detail in Section 1.3. In reality, formal and informal organizational structures usually coexist. It is not possible to make general assumptions about the impact of an informal organizational structure on a formal organizational structure. The impact depends on the specific context and on the main objectives of an organization. However, it is important to be aware of the informal organization and its likely effects. In addition, it is important to strengthen the positive impacts while simultaneously eliminating conflicting or counterproductive ones.

1.1.4	Problem-solving process of the organization
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To solve organizational problems, it is useful to analyze the problem-solving process using a formal flow chart. Based on a general problem-solving process for an organization, the following phases can be differentiated (► Fig. 1):

1. **Analyzing the current situation:** A variety of factors affect the organization of a company. Both environmental conditions (e.g., uncertainty of the environment, legal regulations, size of the market) as well as company-specific factors (e.g., size of the company, historical development, number of products) play a major role.
2. **Setting the objectives of the organization:** The primary goal of an organizational activity is to increase the efficiency of an organization by optimally dividing labor and therefore increasing the success of a company. This goal is related either to the **structural organization** or the **process organization**.
3. **Defining the organizational measures:** In order to achieve organizational objectives (e.g., efficient division of labor, optimal communication channels) a company can utilize a number of organizational measures. The primary means are the different forms of structural and process organization.
4. **Defining the organizational resources:** To carry out organizational measures, adequate resources need to be made available. In addition to financial resources, company employees who define both the organizational measures and the necessary **instruments for executing** (e.g., job description, network plan) as well as implementing the planned measures are of great value.
5. **Implementing the decisions:** Special emphasis is laid on the implementation of organizational measures. Since such measures most often signify a change in the existing structures and processes, they often affect employees who have to adapt to new situations. Here, considerable **resistance** and **conflict** can occur.
6. **Evaluating the results:** This reorganization shows the extent to which a company has managed to meet the new requirements of the environment, employees, and the company itself by means of the given structural and process organization.