Principles of Management
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Lecture - 56
Change management - I

Today, I will be discussing about Introduction to Organizational Change. Organization, specifically the topic covered would be organizations and organizational effectiveness. So, the learning objective is why organizations exist and their purpose; the relationship between organizational theory and organizational change.

Differentiate between structure and culture; understand how managers can utilize organizational theory to design and increase organizational effectiveness; identify how managers assess and measure organizational effectiveness; appreciate the way contingency factors influence the design of organizations.

What is an organization? Let us start with the fundamental definition. Organization is a system which a consist of a group of people, who work in coordination with each other and they work for a common goal within a well-defined structure. So, organization provides goods and services. They employ a group of people in different positions. Organizations bring together people and resources to produce products and services.

Overall, we can conclude that organization is a system used by people to coordinate their actions to obtain something they desire or value. How does an organization create value? What is a value that an organization creates? Value creation is when an organization offers some products and services.

And this happens in stages, that is an input process an output stage. If you look at an organization, from the perspective of systems thinking an organization is like an open system, where there is a there is an input which consists of human resources, information, knowledge, raw material, money and capital.
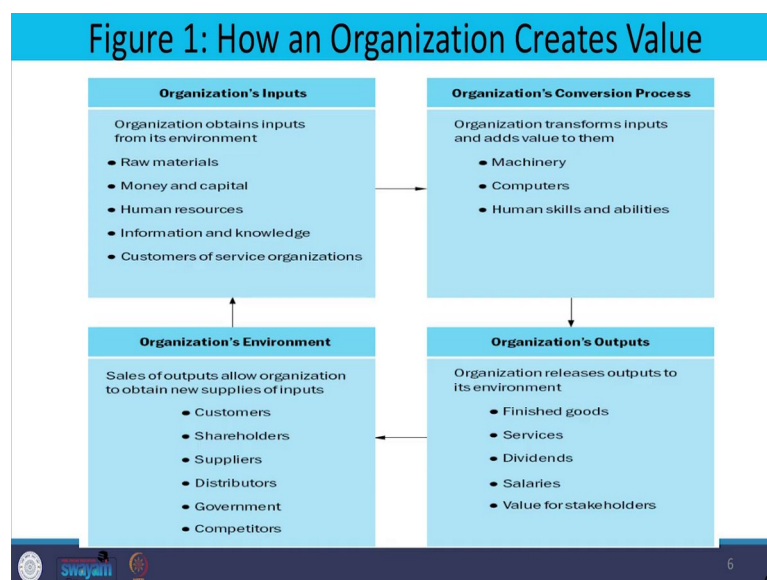
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How Does an Organization Create Value?

- Value creation takes place at three stages: input, conversion, and output
  - **Inputs:** include human resources, information and knowledge, raw materials, money and capital
  - **Conversion:** the way the organization uses human resources and technology to transform inputs into outputs
  - **Output:** finished products and services that the organization releases to its environment

So, these are inputs of an organization and there is a conversion process or process which consists of the way the organization uses human resources and technology to transform the inputs into outputs. What is an output? It consists of the finished goods and services that on organization releases to its environment. Then, we will learn about how this happens; how an organization creates value.

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Figure 1: How an Organization Creates Value

So, the environment that we discussed in the previous slide, sales of output allows environment, allows the organization to obtain new supplies of inputs. So, an

organization's environment consists of customer, shareholder, suppliers, distributors, government and competitors.

And organization's input consists of the raw materials, human resources, money, information and knowledge, customers of service organizations. So, this input is converted in the process like organization transforms various inputs into inputs and adds value to them in the process that is through machinery, computers, human skills and abilities.

And finally, you get a finished good or transformed product or service. Organization releases outputs to environment in terms of finished goods, services, dividends, salaries and values to stakeholders. So, this value creation happens at various stages in various organizations.

In the organizations, manufacturing set up, it comes in the form of manufacturing sector; it comes in the form of different products and in service sector, various services are being offered. So, in a competitive business, whether in the product or in service organizations.
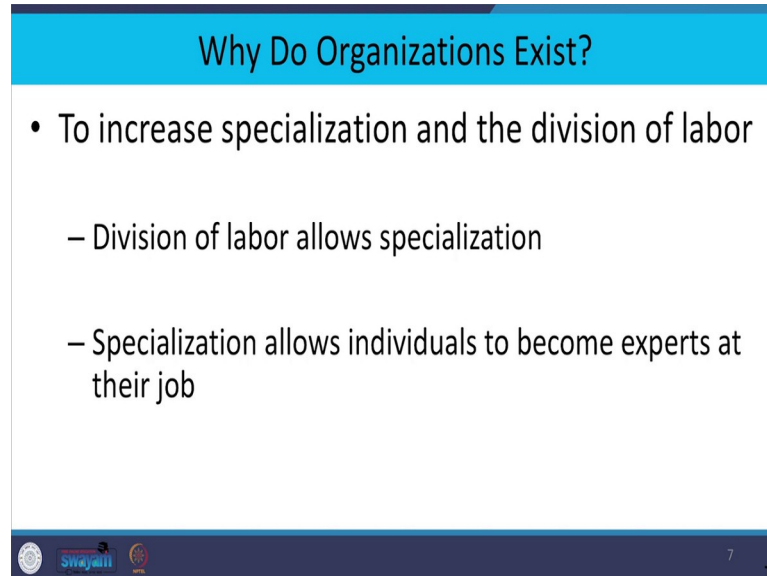
So every organization takes care that with it comes up with some new or innovative products. So, it continuously emphasizes on learning, adapting and changing. So, we will discuss here in this. So, an organization's purpose is to achieve, to maintain, to offer high quality products and services to the customers to increase profitability to earn brand image in the market.

When organization encounters or some forces in the external environment like globalization technological changes, so does the organization remain the same or organization is able to maintain the continuity and order or does the external environment have an impact on the organizational performance.

So, the in this course we will be discussing about what are the factors that influence an organization and if an external factor influences or if an external factor adversely impacts the organizational performance, how does an organization manage effectively manage change and how does it maintain its continuity and order; how does it maintain its effectiveness.

So, let us start the discussion with the fundamentals of learning about why do organizations exist.
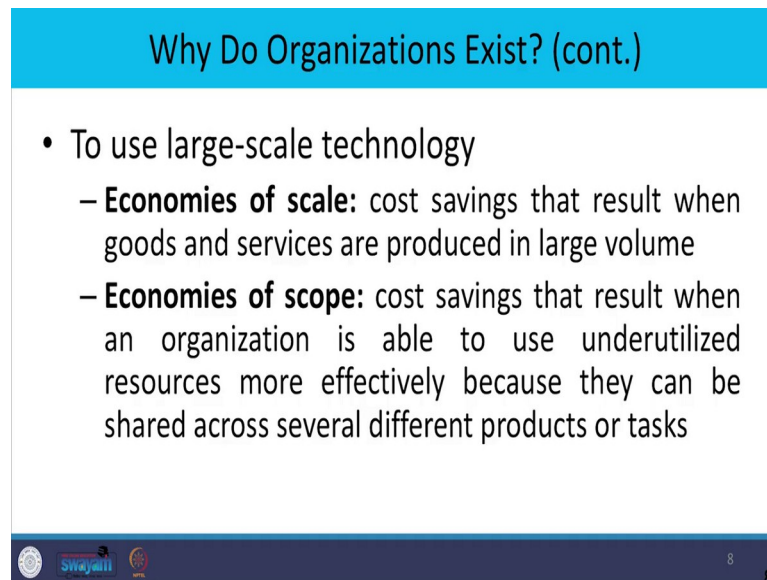
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To increase specialization and division of labor. Division of labor or specialization, this happens in all organizations. There is focus on division of labor based on the specialization, work specialization or job specialization. There are different functional roles and it is based on the premise that a person working in a department or division earns more efficiency, if he continues to work in that division.

Specialization allows individuals to become experts in their jobs. So, if a person takes up a job. So, working in that department, in that division, he is working on continuously on the same processes. So, his efficiency improves and to use large scale technology, there are two factors; one is economy of scale, cost saving that results when goods and services are produced in large volumes.
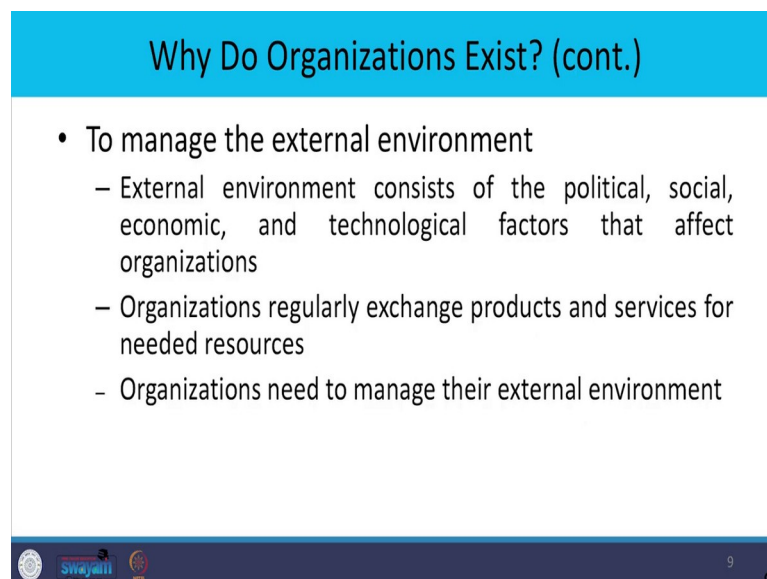
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And economies of scope, cost saving that results when an organization is able to use underutilized resources more effectively because they can be shared across several different products or tasks.

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So, to manage external environment, external environment consists of various factors like political, social, economic and technological factors that affect organizations. Organizations regularly exchange their products and services needed resources. Organizations need to manage their external environment. So, a managing external

environment or learning to cope with external environment is very important in management of change.
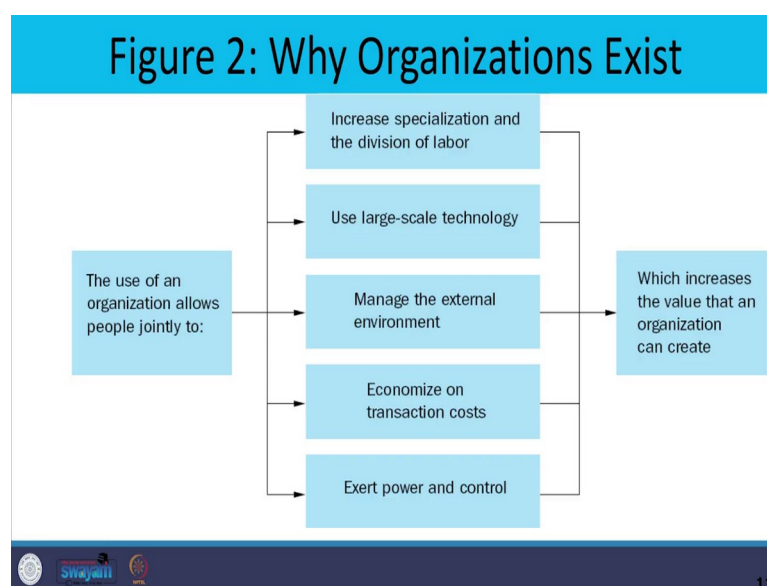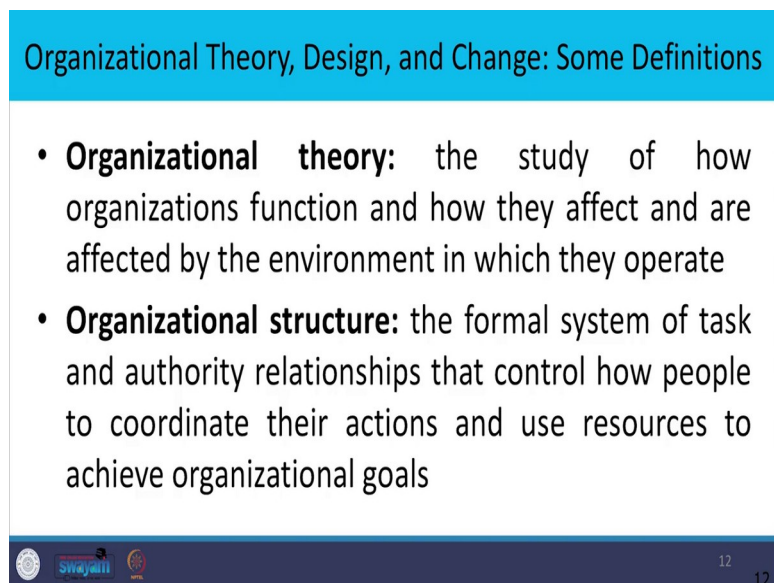
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Why do organizations exert or to exert power and control, organizations structure their members to efficiently produce products and services. To economize on transaction costs, the cost which is associated with negotiating, monitoring, governing exchanges between people who must corporate.

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So, if you look at the holistic viewpoint of this, the organization, the use of organization allows people jointly to increase specialization and the division of labour, use of large-scale technology, manage external environment, economize on transaction cost, exert power and control, which in turn will increase the value of that an organization can create. Let us also learn some definitions of organizational theory design and change and some definitions.
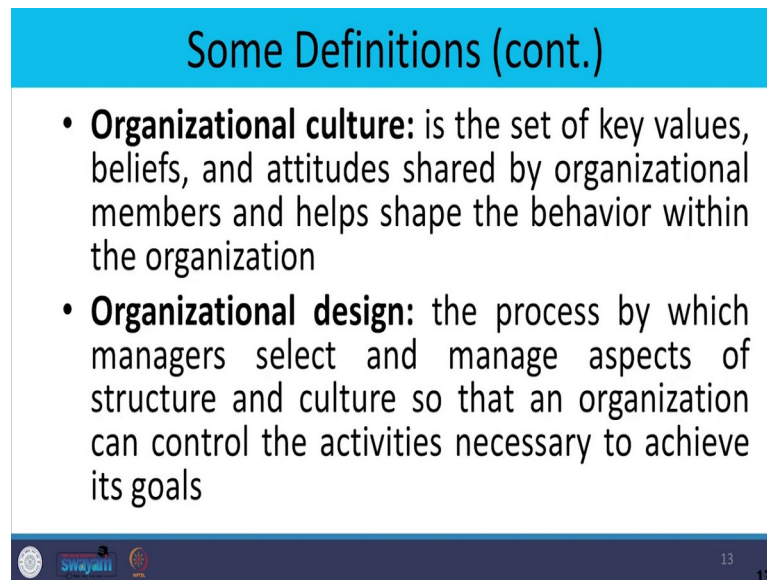
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Organizational Theory, Design, and Change: Some Definitions

- **Organizational theory:** the study of how organizations function and how they affect and are affected by the environment in which they operate
- **Organizational structure:** the formal system of task and authority relationships that control how people to coordinate their actions and use resources to achieve organizational goals

So, organizational theory is the fundamental theory that studies how an organization functions and how it affects and is affected by environment in which they operate. Structure is the formal arrangement or formal system of task and authority relationship that controls how an organization can coordinate their actions and use resources to achieve organizational goal.

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Culture is the set of values, beliefs; attitude shared by organizations organizational members and shapes behavior, the behavior within the organization. It shapes a behavior of people who are working within the organization. For example, there are there are shared values.

Values are imbibed by people. Somebody working in a culture which has which emphasizes on innovation. So, people there is more flexibility, there is more freedom, more empowerment given to employees. If the culture of an organization is highly bureaucratic, there would be more people will follow chain of command and there is more of rigidness and hierarchy to be followed.

The information flows from one part or one management, one hierarchy to another through a chain of command. Organizational design, the process by which managers select and manage aspects of structure and culture so that organization can control the activities necessary to achieve its goals.

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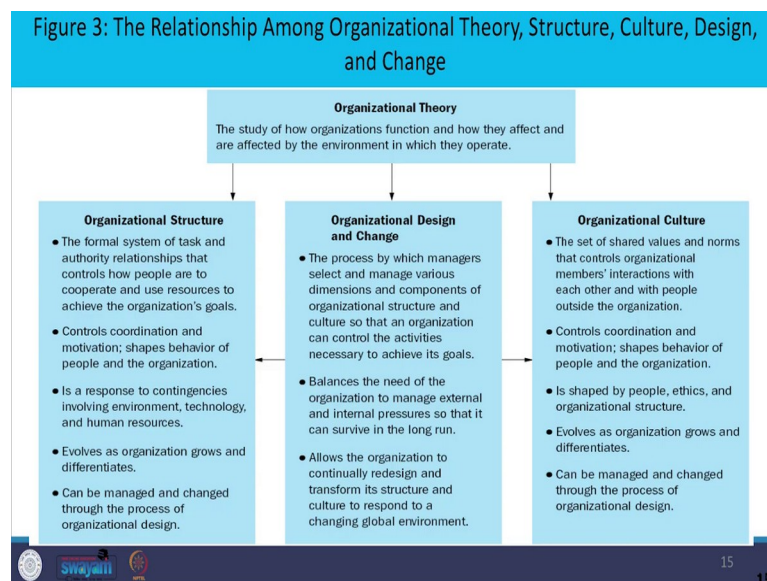Then, we will discuss about the definition of change. Change is a process by which organization moves from one state of affairs to another state of affairs or otherwise, we can say from its present state or status core to the desired future state to increase their effectiveness.

So, organizational in this process, we will also discuss about organizational redesign or re engineering and how an organization transforms. So, relationship among organizational theory, structure, culture, design and change.

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If we look from a holistic point of view, we can say that theory, organizational theory is the study of how an organization functions and how they affect and are affected by the environment in which they operate. So, let us start with what is organizational structure. It is a formal system of task and authority relationship.

That controls how people are cooperating with each other and use resources to achieve organizational goals. Control, coordination and motivation shapes behavior of people in the organization in a response to contingencies in the environment, in a response to the various factors in the environment like technology and human resources.

How does an organization behave, organization design and change? Evolves an organization as organization grows and differentiates. So, I will be discussing about what happens to an organization in the various life cycle stages and as starting from evolution to growth to maturity and decline, how it is managed and changed through the process of organizational design.

Organizational design and change, it is a process by which the managers select and manage various dimensions and components of organizational structure and culture so that an organization can control the activities and necessary to achieve its goals. Balance the needs of the organization to manage external factors, external and internal pressures so that it can survive in the long run.

So, there are various external factors and internal pressures; internal pressures like change in leadership, changes in the job structure, nature of the job and also external factors like technological changes or say the economic factors, political factors which can have an impact on the organizational design.

And how does it affect the organizations, various aspects and how the organization evolves. Allows the organization to continually redesign. Now, the question comes should the organization stop, should the organization accept or should it adapt and learn new as per the demands of new situation.
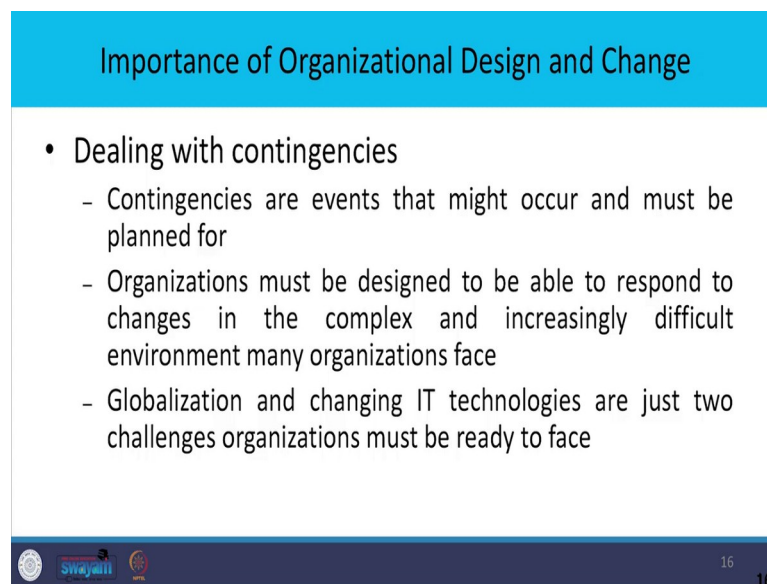
So, allowing the organization continually redesign and transform it structure and culture to respond to changing global environment. As all of us know that the global environment in the all the organizations are succumb to global competitive pressure.

Changing nature of workforce or say global competition or say advent of information technology, e-marketing, so all these are factors which have influenced the organizations and organizations have changed its structure, changed its design and continuously evolving.

Organizational culture, the set of shared values and norms that controls organization's members, interaction with each other and with the people outside the organization. Controls coordination and motivation, shapes the behavior of organization, shapes the behavior of people and the organization.

Is shaped by people, ethics and organizational structure. Evolves as organization grows and differentiates. So, we will be learning about how change is effectively managed through the process of organizational design. Importance of organizational design and change; dealing with contingency factors.

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What are these contingencies? Contingencies are basically the events that might occur and must be planned for. So, organization must be designed to be able to respond to changes in complex and increasingly difficult environment many organizations face. Like Kodak has transformed, earlier a camera used to have the reels and now, it is the digital camera.

So, Kodak has to transform. Similarly, the earlier there was the music industry, there were cassettes; now, there is online music store. So, the advent of or because of the changing preferences of customers or because of the changes on competitive pressure in the industry, there is always a scope for innovation and learning.

Organizations must be designed to be able to respond to changes in the complex and increasingly difficult environment many organizations face. So, it is always advice that an organization does not have the structural rigidities, organizations must be flexible so as to learn adapt and change.

So, there is emphasis of learning and learning and adapting which will lead to more innovation creativity. So, the organization would be able to add more value to the to the products and services, it offers to the customers in order to create more, in order to have more earnings.

To have more profit and it will have a brand image, it will have a corporate brand, brand name in the competitive business environment. Globalization and changing IT technologies are just two challenges that must be taken care of, so which an organization should be ready to face.

Gaining competitive advantage. What is competitive advantage? Competitive advantages are when the organization is distinctly different from its competitors based on some core competitive competencies and some strategies, it has, it possesses.

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Importance of Organizational Design and Change (cont.)

- Gaining competitive advantage
  - The ability to outperform other companies because of the capacity to create more value from resources
  - **Core competences:** skills and abilities in value creation embedded in the organization's people or structures
  - **Strategy:** pattern of decisions and actions involving core competences that produces a competitive advantage to outperform competitors

So, the ability to outperform the competitors because the capacity to create more value from its existing resources; land, capital, machinery, human resources, information knowledge. So, if an organization is able to capitalize on these or leverage on these resources, so it will develop its core competencies.

Next is what is a core competency? Core competency is the skill and ability in value creation process. What is that skill and ability which is embedded in the organizations people or structure? Let us talk about say if an if a company like Toyota is known in the market, it leverages on the quality, quality of the product.
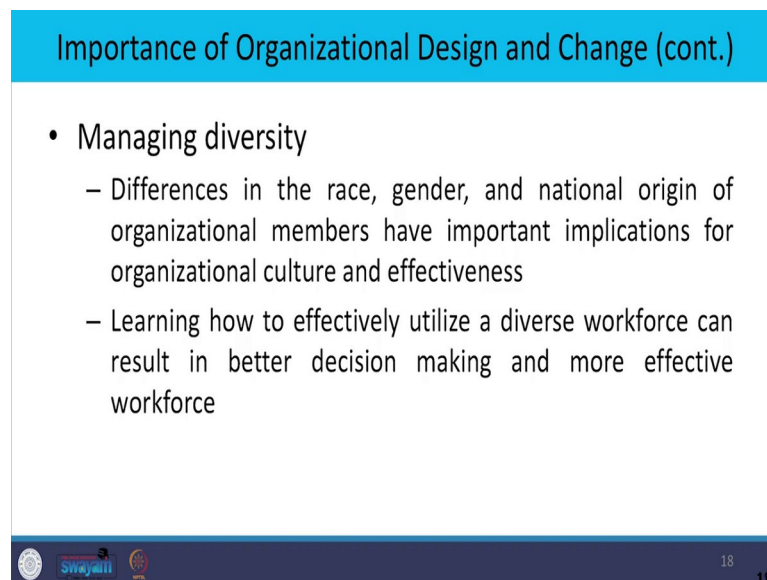
So, Toyota is able to earn a competitive advantage in the market because of its quality. So, quality is the buzzword or core competence. Similarly, let us take an example of Maruti's vehicle in the market. Maruti is known in the automobile segment for its competitive advantage of its dealer network.

It has a strong dealer network, it its service personnel are so efficient and it has it is able to manage, so they are able to provide services very quickly. So, service we can say that skills and abilities differentiates Maruti; the dealership network, the dealers' ability to address to the queries of the customers is another efficiency, another competency of the of Maruti.

Similarly, other companies, some emphasize on quality, some emphasize on innovation; innovation is the buzzword in Google. Google is able to sustain and survive the competitive pressure because of its being highly innovative company. It has gone way beyond Yahoo and Rediff and other service providers. So, the innovation in case of say Google and Apple have given a competitive edge to these two companies.

Next is strategy; strategy also helps in earning competitive advantage. What is a strategy? It is a plan of action, pattern of decisions and actions which are involving core competencies that produce a competitive advantage and which can help out perform competitors. So, importance of organizational design and change in managing diversity.

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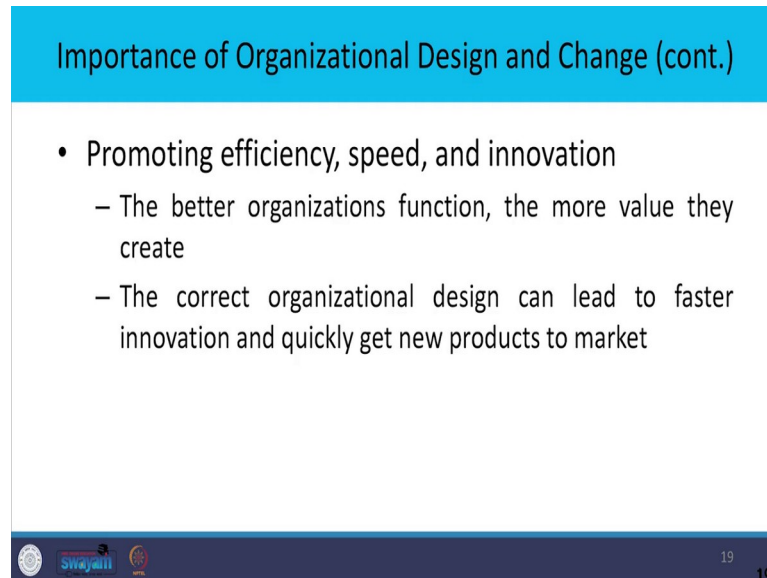

Differences in race, gender, national origin of organizational members have also important implications for organizational culture and effectiveness. Learning how to effectively utilize as we said that that each organization will have some kind of core competency.

So, nowadays, because there is a diversity, workforce diversity in terms of say cultural diversity in terms of regional diversity or diversity in functional background, diversity in job related or in experience, education and so on. So, learning how to effectively utilize the knowledge, skills and information in within a diverse work group can also result in developing the core competency of an organization.

It can help in providing better decision making and will help in developing a very effective talent and effective workforce, promoting efficiency, speed and innovation. So, an organization can always leap forward, carry forward or move forward in a competitive business environment, only if it promotes efficiency, speed, innovation, it capitalizes leverages on its core competencies and effective management of strategy.

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So, the better organizational function, the more value they create, the correct design can lead to faster innovation and quickly get new products to market. So, the emphasis should also be given on employee job fit, employee organization fit, the employees are deployed in or in places which can match their job profile and the correct organizational design can lead to faster innovation and can also quickly get better products and services.
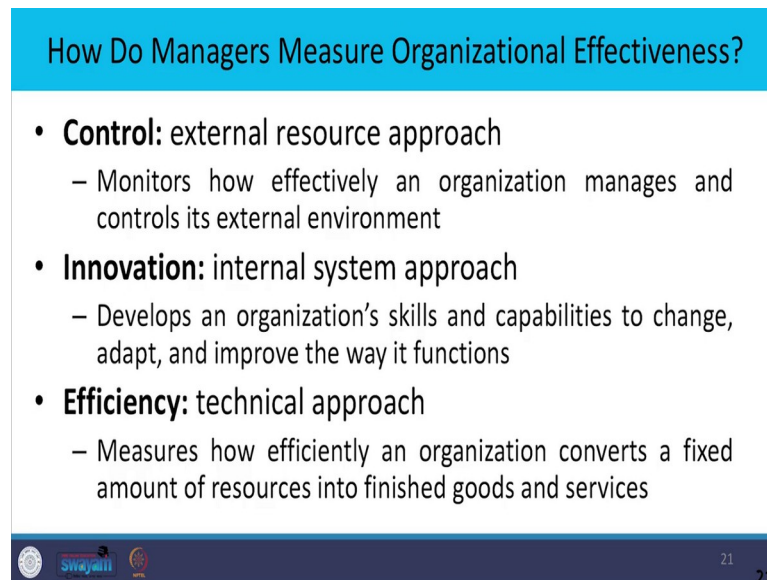
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Consequences of poor organizational design, decline of organization sales. If there is poor organizational design or structure, what will be the impact on organization? The organization, organization will not be able to efficiently function.

There would be decline of sales; there would be layoff of employees, who are talented; people will leave the organization because of lack of satisfaction and they will obviously, look forward to take positions in organizations, where their needs are basic needs or where their growth needs are being fulfilled.

So, resources become harder to acquire, resulting crisis may result in organizational failure. So, now we will discuss about how managers challenge or how managers are able to effectively manage in a situation in an environment, where is there are internal external force forces of change, how to measure organizational effectiveness.

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So, there are some mechanisms through which managers can effectively manage change. One is control, innovation and efficiency; these are three measures for organizational effectiveness. External resource approach which says that monitors how effectively an organization manages and controls its external environment.

Is it possible to manage external environment, Innovation approach or internal systems approach? There are three approaches as I discussed external resource approach which has control as a control mechanism, internal systems approach emphasizes on innovation, external system or technical approach emphasizes on efficiency.

So, innovation is an internal systems approach, develops an organizations skill which emphasizes on developing skills and abilities of individuals. Skills and capabilities to change adapt and improve the way it functions, that is emphasizing on innovations.

Efficiency that is technical approach, measures how efficiently an organization converts a fixed amount of resource into finished goods, technical approach. So, approaches to measuring effectiveness, these three approaches that is external resource approach or internal systems approach and technical approaches.
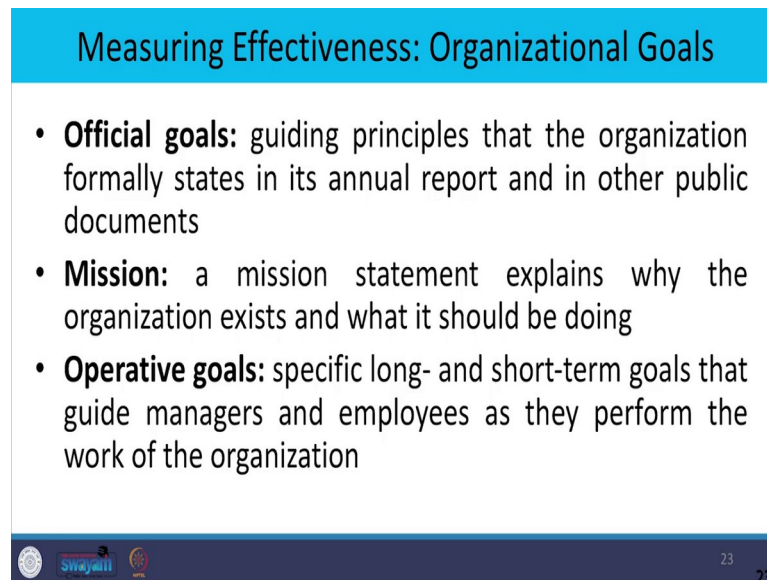
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Table 1: Approaches to Measuring Effectiveness

APPROACH	DESCRIPTION	GOALS TO SET TO MEASURE EFFECTIVENESS
External resource approach	Evaluates the organization's ability to secure, manage, and control scarce and valued skills and resources	• Lower costs of inputs • Obtain high-quality inputs of raw materials and employees • Increase market share • Increase stock price • Gain support of stakeholders such as government or environmentalists
Internal systems approach	Evaluates the organization's ability to be innovative and function quickly and responsively	• Cut decision-making time • Increase rate of product innovation • Increase coordination and motivation of employees • Reduce conflict • Reduce time to market
Technical approach	Evaluates the organization's ability to convert skills and resources into goods and services efficiently	• Increase product quality • Reduce number of defects • Reduce production costs • Improve customer service • Reduce delivery time to customer

Technical external resource approach, it evaluates the organization's ability to secure manage and control scarce and valued skills and resources. Internal systems approach evaluates the organization's ability to innovate and function quickly and responsively and technical approach evaluates the organization's ability to convert skills and resources into goods and services efficiently. So, goals to set measures effectiveness, how what are the goals?

For external resource approach, the goal is lower cost of input, obtain high quality input of raw materials and employees, increase market share, increase stock prices, gain support of stakeholders such as government or environment and for the internal systems approach cut decision making time. Increase a rate of a product in a product innovation, increase coordination and motivation of employees, reduce conflict and reduce time to market.

For the last approach that is technical approach, the emphasis on organization the goals to measure effectiveness is increase product quality, reduce number of defects, reduce production cost, increase improved customer service and reduce delivery time to customers. So, how we can measure effectiveness or we can measure organizational goals, there are one is through official goals, another is mission and operative goals.

Guiding principles that organizations formally state in its annual report and its other public documents is called the organizational goal or official goals of an organization. Mission is a statement which explains why an organization exists. It defines the purpose of an organization.

The purpose like what for is the organization whether it is a profit centered organization or it is a nonprofit organization, it defines. So, in a profit centered organization say for example, the various specific goal can be say whether to whether to offer quality products or to be more innovative.

Operative goals specifically specific long and short term goals that guide managers and employees as they perform the work of organizations. So, summarizing, what we have learnt is organizations are a tool people use to achieve their goals. Organizational theory is the study of how organizations function and how they affect and are affected by the environment. Organizational effectiveness must be monitored by managers.

So, with this, we will conclude this session saying that what we discussed so far an organization, we discussed about the structure, we discussed about the purpose and various contingent factors in the organizations environment and we also, discussed about how external forces influence the status quo of an organization.

The organization would be succumbed to change and how organization managers change effectively and efficiently in the events of change various whether it is in the events of various types of change whether internal or external. So, an organization which is success able to successfully manage change would only sustain and survive in the long run.

So, with this, I would like to conclude this lecture.

Thank you.