

Organizational Design Change and Transformation
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Module - 01
Lecture - 01
Introduction to Organizational Design

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NPTEL ONLINE CERTIFICATION COURSES

ORGANIZATIONAL DESIGN, CHANGE AND TRANSFORMATION

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Module 1 Lecture 1

What is an organization?; Why do organizations exist? How do organizations create value? Organizational theory, structure, culture, change, and design; Evolution of organization theory and design; Dimensions of organizational design; Organizational configuration; How do contingency factors influence the design of organizations? Assessing and measuring organizational effectiveness; Approaches to measure effectiveness; Organizational stakeholders and organizational effectiveness; Challenges faced by organizations.

[FL]. Today we begin with our new course on Organizational Design, Change and Transformation. This course is a 12 week course where we will be talking about organizations how are organizations structured, how are they designed, what happens when they change how do they change and we will also talk about how does the transformation take place.

Now, this particular course will spread over 12 weeks as I just said and will be taught by 3 faculty from Vinod Gupta School of Management at IIT Kharagpur. The first 6 weeks will be

taught by me I am Sangeeta Sahney following that the course will be co taught by Professor Susmita Mukhopadhyay and Professor Srinivasan again from Vinod Gupta School of Management at IIT Kharagpur.

Now this particular course is going to be about organizations, their effectiveness, organization theory, design, change, transformation, organizational effectiveness we will be talking about what is the kind of environment that organizations face, we will talk about how does this environment affect their choice of the structure, choice of the strategy that they adopt, we will talk about how do organizations change what happens when organizations change.

We will also discuss the dynamics in organizations in terms of conflict, in terms of power, political behaviour, we will talk about organizational culture, we will talk about learning in organizations, how technology has affected organizations, we will talk about entrepreneurship creativity innovations in organization, we will talk about organizational development interventions and change management, we will also talk about you know how you know organizations are born, how do they grow and how do they decline and eventually die.

So, this is all that we will be studying in this particular course which is going to be spread over the next 3 months. Now, as far as the first 6 weeks go I shall be teaching and in these 6 weeks we will be talking about organizations and organization effectiveness, theory design change.

I will give you a brief you know briefly I will deal about all of these how what are they and how do they effect an organization, we will talk about organizational effectiveness, we will talk about the various stakeholders in organizations. This will be week 1 this will be followed by week 2 where we will be talking about the organizational environment.

We will talk about stakeholders, we will talk about the internal environment the external environment, what are inter organizational relationships, how do you design organizations globally when you have to operate across your you know domestic borders and we will talk about the resource dependence theory, we will talk about the transaction theory.

Thereafter we will move to week 3 where we will be talking about organizations structure authority control, we will talk about specialization, we will talk about coordination, we will talk about the different kinds of organizational structures, we will talk about challenges in organization design pertaining to structure.

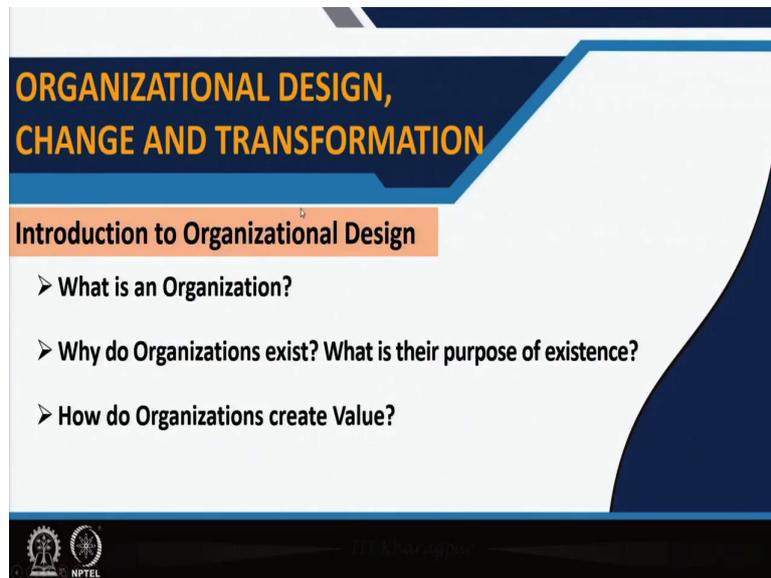
Week 4 we will be talking about organizational design and strategy, how does strategy affect organizational design and how the organizations structure and design must change with a change in the strategy. Then we will move to organizational change and change management, what are the different kinds of change, how do companies how do organizations manage change and then while I am doing that I will also talk about organizational development.

And then finally we will I will be in week 6 I will be dealing with conflict management, I will be talking about power and a politics a political behaviour in organization. So, this is what I am going to be covering in the first 6 weeks as module 1 to module 6. So, now we begin with module 1 which is week 1 and in this particular week we will be talking about what is an organization?

Why do organizations exist? How do organizations create value? Organization theory, structure, culture, design and change; so, I will be briefly explaining to you what these terms mean, we will be talking about the evolution of organization theory and design, the dimensions of organizational design organizational configuration, how do contingency factors influence the design of organizations, we will also talk about how do you assess and measure organizational effectiveness.

We will talk about the approaches to measure organizational effectiveness, we will talk about organizational stakeholders and organizational effectiveness and finally we will speak about the kind of challenges, which organizations face today. So, this is what we will be discussing in this particular module 1 or week 1.

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**ORGANIZATIONAL DESIGN,
CHANGE AND TRANSFORMATION**

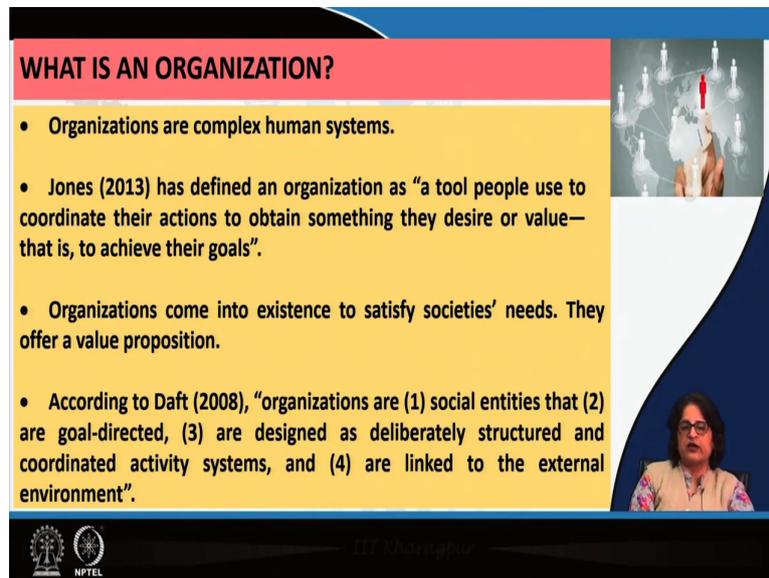
Introduction to Organizational Design

- What is an Organization?
- Why do Organizations exist? What is their purpose of existence?
- How do Organizations create Value?

And now to begin with lecture 1 we will be speaking about what is an organization? Why do organizations exist? What is the purpose of their existence? And how do organizations create value? So, this is what we will be talking of in this particular lecture.

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WHAT IS AN ORGANIZATION?

- Organizations are complex human systems.
- Jones (2013) has defined an organization as “a tool people use to coordinate their actions to obtain something they desire or value— that is, to achieve their goals”.
- Organizations come into existence to satisfy societies’ needs. They offer a value proposition.
- According to Daft (2008), “organizations are (1) social entities that (2) are goal-directed, (3) are designed as deliberately structured and coordinated activity systems, and (4) are linked to the external environment”.

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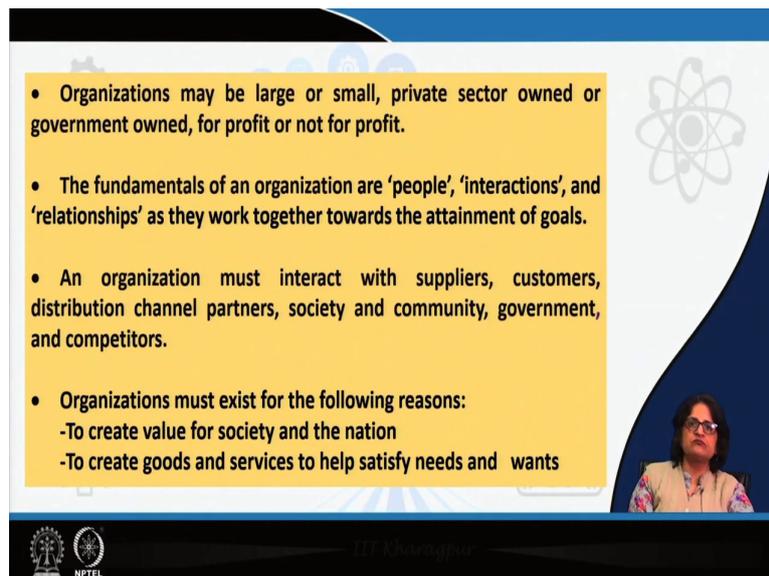
So, coming to what is an organization? Now organizations are human systems they are very complex human systems, they are collective entities they come into existence to satisfy a need. You know they have a purpose they have a purpose of existence and that is to satisfy societal needs and what do they offer they offer a value proposition?

So, if we look at them we have to treat them as complex human systems Jones has defined an organization as a tool which people use to coordinate their actions to obtain something they desire or value, that is to achieve their goals and Daft has defined organizations as social entities which are goal directed they are designed as deliberately structured and coordinated activity systems and they are linked to the environment.

So, if you look at it they are all an organization exists through satisfy societal needs, there is a need there is a warn to the society and the organization through it is processes through the

people that it employs through the resources. That it takes as inputs is able to transform the input into an output in the form of goods and services something which is of value to the society and that is why organizations exist. So, they come into existence to satisfy societal needs.

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- Organizations may be large or small, private sector owned or government owned, for profit or not for profit.
- The fundamentals of an organization are 'people', 'interactions', and 'relationships' as they work together towards the attainment of goals.
- An organization must interact with suppliers, customers, distribution channel partners, society and community, government, and competitors.
- Organizations must exist for the following reasons:
 - To create value for society and the nation
 - To create goods and services to help satisfy needs and wants

Now, organizations may be large, they may be small, they may be privately owned, they may be government owned, they may be for profit, they may be non profitable, organizations as well. But what is very fundamental to any and all of these is one people to they interact with each other and enter into a relationships they enter into a network of relationships as they work together to achieve goals.

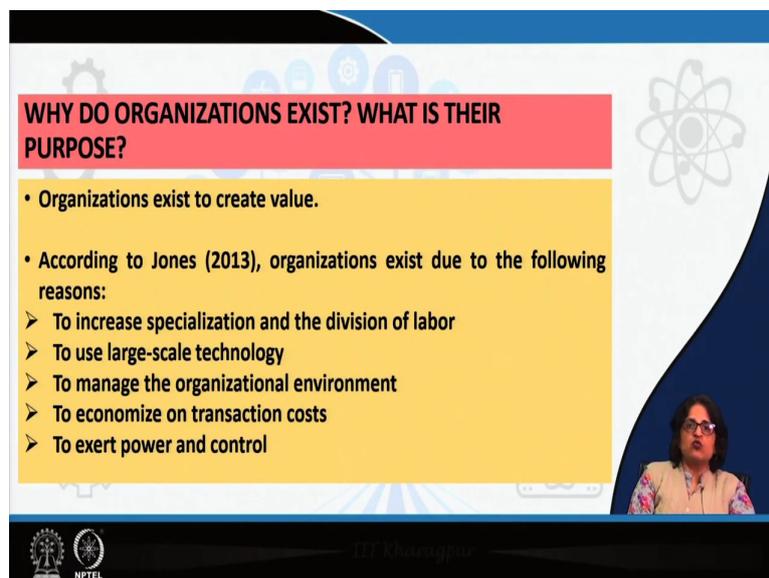
So, when they are when they form these networks when they form these relationships they have to interact with suppliers with vendors, with channel partners or distribution channel

partners we also call them dealers, distributors, they have to interact with the customers, they have to actually interact also with the society, with the community, with the government and even with the competitors.

So, when we say that they are in they are all people who are interacting with one another and they forge into these relationships to actually achieve goals and what is the goal the goal is to create value. Now this value comes in the form of goods and services for the customers for the society, but this is the value also translates into revenues and profits for the organization.

So, value is generated both for the society for the community as well as for the organization. So, organizations exist to create value for the society and for the country and they also exist basically to provide for goods and services to satisfy needs and wants of the people.

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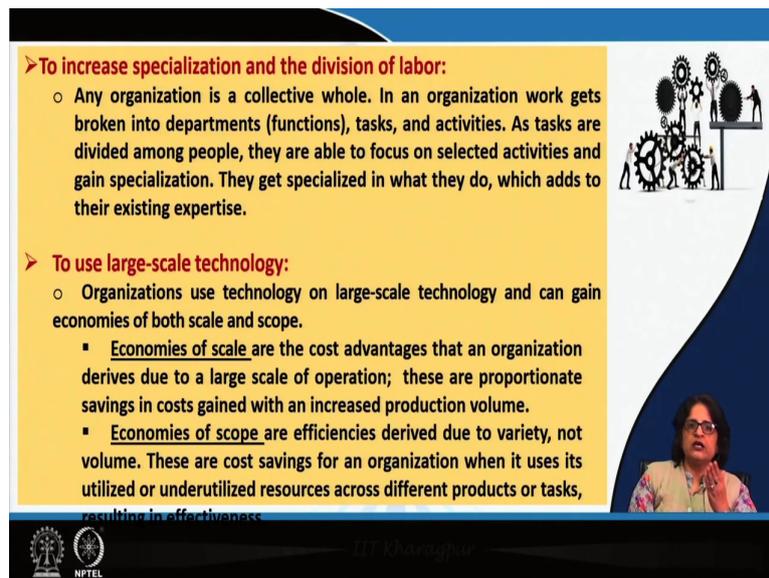
WHY DO ORGANIZATIONS EXIST? WHAT IS THEIR PURPOSE?

- Organizations exist to create value.
- According to Jones (2013), organizations exist due to the following reasons:
 - To increase specialization and the division of labor
 - To use large-scale technology
 - To manage the organizational environment
 - To economize on transaction costs
 - To exert power and control

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So, why do they exist and what is the purpose? As I just said they exist to create value and according to Jones you know there are 5 reasons why organizations exist. Now I will actually you know go explain each of these points and you have these points in the subsequent slides as well.

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➤ **To increase specialization and the division of labor:**

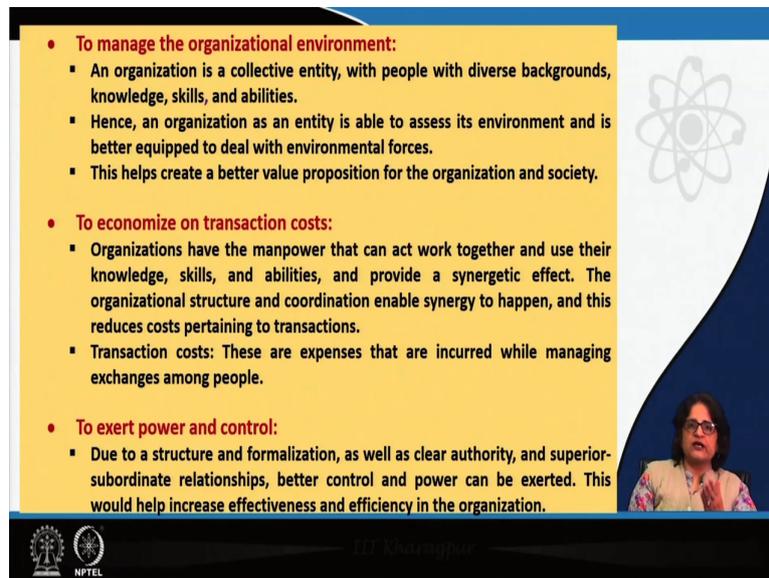
- Any organization is a collective whole. In an organization work gets broken into departments (functions), tasks, and activities. As tasks are divided among people, they are able to focus on selected activities and gain specialization. They get specialized in what they do, which adds to their existing expertise.

➤ **To use large-scale technology:**

- Organizations use technology on large-scale technology and can gain economies of both scale and scope.
 - **Economies of scale** are the cost advantages that an organization derives due to a large scale of operation; these are proportionate savings in costs gained with an increased production volume.
 - **Economies of scope** are efficiencies derived due to variety, not volume. These are cost savings for an organization when it uses its utilized or underutilized resources across different products or tasks, resulting in effectiveness.

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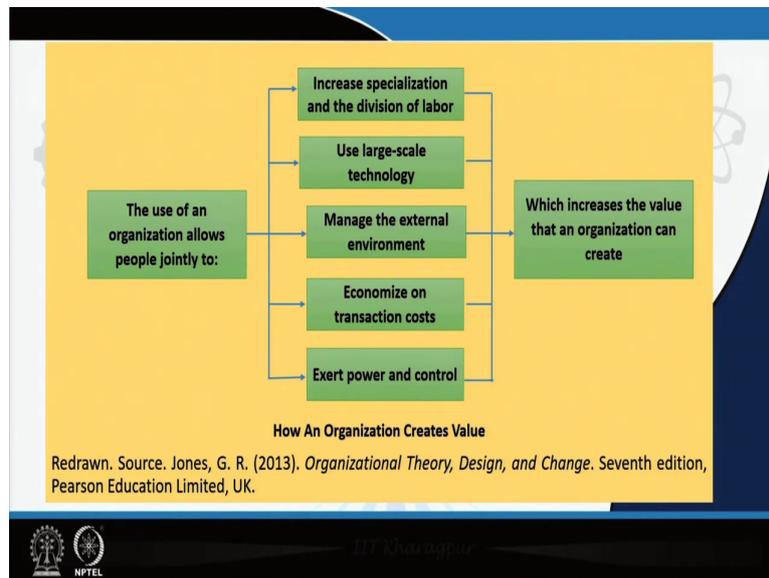
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- **To manage the organizational environment:**
 - An organization is a collective entity, with people with diverse backgrounds, knowledge, skills, and abilities.
 - Hence, an organization as an entity is able to assess its environment and is better equipped to deal with environmental forces.
 - This helps create a better value proposition for the organization and society.
- **To economize on transaction costs:**
 - Organizations have the manpower that can act work together and use their knowledge, skills, and abilities, and provide a synergetic effect. The organizational structure and coordination enable synergy to happen, and this reduces costs pertaining to transactions.
 - Transaction costs: These are expenses that are incurred while managing exchanges among people.
- **To exert power and control:**
 - Due to a structure and formalization, as well as clear authority, and superior-subordinate relationships, better control and power can be exerted. This would help increase effectiveness and efficiency in the organization.

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But before I do that I will just quickly showcase a model to you here, the according to Jones the organization exists to you know for 5 basic reasons. So, it allows people it allows people to jointly to increase specialization and division of labour, use large scale technology, manage the external environment, economize on transaction costs, exert power and control and all together put together these 5 increase the value that an organization can create.

So, the use of an organization allows people jointly to Increase their specialization and division of labour, Use large scale technology, Manage the external environment, Economize on transaction costs, Exert power and control all of which will help increase the value that an organization can create.

The value as I said is in the form of goods and services for the society, for the community, for the people and also value for the country and value also comes in the form of revenues and

profits for the organization which the organization is again going to invest to create value for the customer. So, this is why that is these are the reasons why organizations exist. Now we will go into each of these points one by one.

So, the first reason why organizations exist is to create increase specialization and division of labour. So, you know as I just said an organization is a complex whole it is a collective entity it comprises people and it work the organization work you know gets broken into different departments into different functions tasks activities and these tasks are divided amongst people they are able to focus on certain select activities and thereby when they are working on the same activity or the same function again and again they gradually gain specialization.

So, they gain they get specialized in whatever they are doing and they that adds to their expertise. The second reason why organizations exist is to use large scale technology which is again going to help them create value. So, when we talk of organizations using large scale technology we also talk of them actually gaining economies of scale and economies of scope.

Now what are economies of scale and economies of scope? Now economies of scale are the cost advantages that an organization earns due to it is large scale of operation. You know when we talk of cost there are two kinds of cost a fixed cost and a variable cost.

The fixed cost is something which the organization must incur irrespective of its level of production, irrespective of the level of units that it produces, but the variable cost is per unit ok. Now if you want to reduce the total cost which actually means fixed cost plus variable cost.

So, if you want to reduce the total cost you know you need to focus on you know trying to reduce the fixed cost and fixed cost how would it get reduced? It would get reduced if it is if your production is high and your fixed cost gets spread over larger number of units.

So, what happens is that you know as it spreads to larger number of units because of large scale production, your overall total cost reduces. I repeat total cost is fixed cost plus variable

cost, now variable cost is something which will vary per unit of production, but fixed cost is something which you must incur irrespective of the number of units you produce.

So, if you want to reduce the total cost you will have to reduce you will have to spread the fixed cost such that the fixed cost per unit gets reduced ok. And if you are producing on a large scale this fixed cost gets divided and so per unit cost will reduce ultimately which means the total cost will reduce.

So, when organizations produce on a large scale they gain certain cost advantages, because the fixed gets fixed cost gets more evenly spread and the total cost per unit reduces. So, when companies produce on a large scale you know they earn certain cost advantages and this is what we refer to as economies of scale.

So, these are proportionate savings and cost which are increased which a company can gain due to an increased production volume. The second kind of economy economies of you know economy that organization can actually gain is in terms of economies of scope. Now, what are economies of scope these are efficiencies which are derived due to variety not volume, the economies of scale is derived due to volume, but economies of scope are efficiencies which you derive because of variety.

So, these are cost savings when a organization uses underutilized resources or it uses it is utilized resources across different products or tasks in a better way resulting in overall effectiveness. So, organizations use technology on a large scale and economies, one economy is in terms of economies of scale which are cost advantages that incur that they that an organization can earn due to large scale of operation.

The other is economies of scope which are efficiencies which an organization can derive due to variety. So, these are cost efficient cost savings for an organization when it uses its utilized or underutilized resources across different products and different tasks which result in greater effectiveness.

The third reason why organizations exist according to Jones is to manage the organizational environment. So, the organization as we just said is a collective entity it has people with diverse backgrounds with diverse knowledge skills abilities and so it is an entity which and as an entity it is able to assess its environment and is better equipped to deal with environmental forces. We will be talking about the environmental forces in a in the subsequent lectures.

So, you know because an organization exists it can manage its environment better and this helps create a better value proposition for the organization and for the society. Another reason why organizations exist and fulfil a major purpose is to economize on transaction costs. Now what are transaction costs?

Transaction costs are expenses which are incurred while managing transactions amongst people. I just told you that you know when in an organization there are people there are interaction there are relationships and there is a network which has to be formed with your vendors, with your suppliers, with your dealers, with your distributors, with the with the customers, with the competitors with the society.

Now, while during such interactions during such exchanges costs are incurred and these expenses are referred to as transaction costs. So, in order to economize on transaction costs organizations must exist as formal structures and organizations have the manpower that can act together work together and use their knowledge skills abilities and provide a very synergetic effect, so as to be able to reduce the cost pertaining to transaction.

Another reason why organizations must exist is to exert power and control. Now due to the structure and formalization as well as clear authority responsibility relationships superior subordinate relationships better power, better control can be exercised and this can also help increase effectiveness and efficiency of an organization.

So, these are the 5 reasons which we where we see that the use of an organization allows people jointly to specialize to use large scale technology to manage the external environment,

to economize on transaction costs, to exert power and control and all of this increases the value that an organization can create.

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HOW DO ORGANIZATIONS CREATE VALUE?

- Organizations offer a value proposition.
 - A value proposition is the entire bundle of benefits an organization can offer to help satisfy a want.
- Value is generated through stages of resource acquisition, and transformation of the same to a good/service.
- This involves the input stage, conversion of the input into output, and release of the output; the stages are affected by the environment in which an organization exists and conducts its operations. This is the essence of a systems approach.

The slide features a diagram on the right with the word 'VALUE' in a central cloud, surrounded by icons for 'TECHNOLOGY', 'INNOVATION', 'MARKETING', 'FINANCIAL', 'OPERATIONS', 'HUMAN RESOURCES', and 'CUSTOMER'. A small video inset shows a woman speaking. The NPTEL logo is visible in the bottom left corner.

So, how do organizations create value? So, first let us speak about what is a value what is a value proposition? Now a value proposition is entire bundle of benefits that an organization can offer to satisfy a need or a want and it is actually generated through the input transformation output process. Where there is a resource acquisition which forms the input stage there is a transformation and the output is in the form of a good or a service.

So, the input stage the conversion of the input into the output stage as a part of the transformation process and the release of the output. These are the 3 stages and they are affected by the environment in which an organization operates you know and this is the essence of the systems approach.

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➤ **Input, Conversion, Output and Environment**

- **Input:**
 - Inputs are resources, be they physical, monetary, or human resources, and include raw materials, capital and machinery, information and knowledge, manpower, and money.
- **Conversion:**
 - This is the transformation process by which an organization uses manpower, machines, and technology to convert inputs into outputs.
- **Output:**
 - This is the finished good/service an organization produces and offers to the market to help satisfy a want.



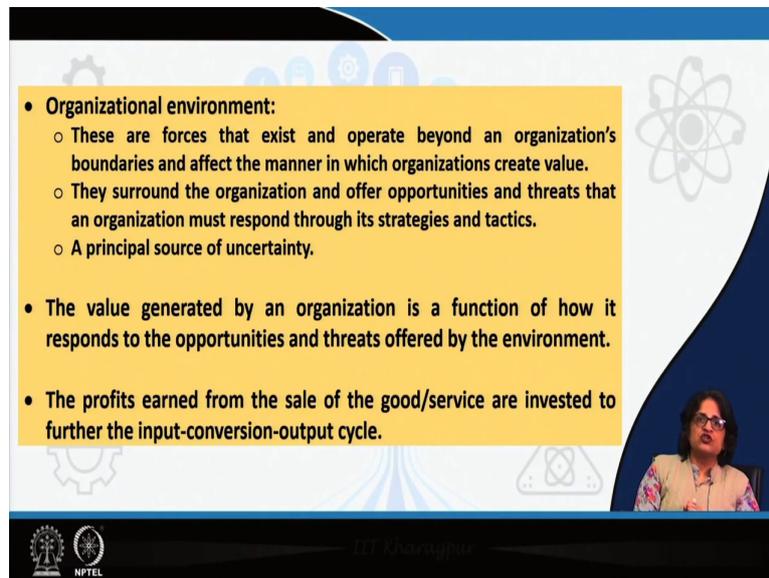
The diagram shows a stylized human head profile on the left containing several interlocking gears in various colors (red, blue, green, yellow). Three blue arrows originate from the head: one labeled 'input' points upwards and to the right, one labeled 'process' points horizontally to the right, and one labeled 'output' points downwards and to the right.



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So, you have the inputs which are the resources be they physical resources, monetary resources, human resources they could be raw material, capital machinery, information knowledge, manpower, money. Then you have this the conversion or the transformation process by which the organization uses it is resources a manpower machines technology to convert the inputs into outputs and the output is the finished good, which the organization produces and offers to the market to satisfy a need or a want.

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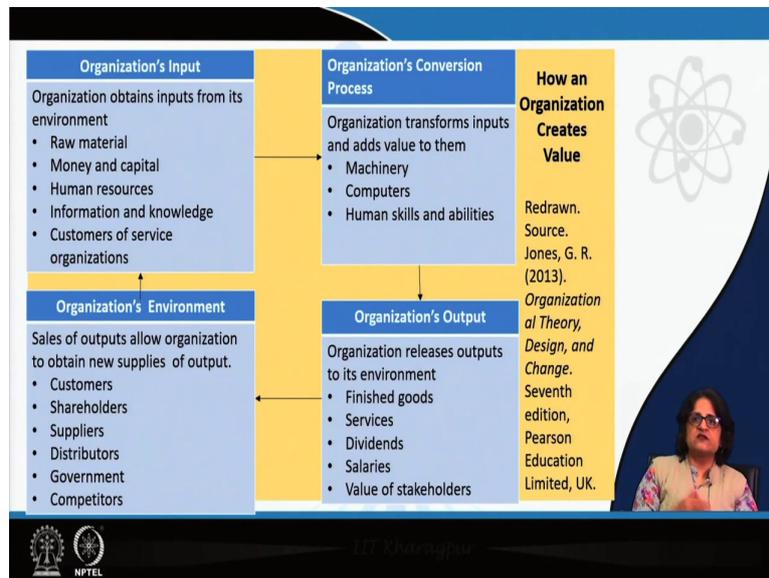


- **Organizational environment:**
 - These are forces that exist and operate beyond an organization's boundaries and affect the manner in which organizations create value.
 - They surround the organization and offer opportunities and threats that an organization must respond through its strategies and tactics.
 - A principal source of uncertainty.
- The value generated by an organization is a function of how it responds to the opportunities and threats offered by the environment.
- The profits earned from the sale of the good/service are invested to further the input-conversion-output cycle.

So, this is the entire input transformation output process is surrounded by an environment and this constitutes what we refer to as the organizational environment and these are forces that exist and operate beyond the organizations boundaries and affect the manner in which an organization creates value.

So, they surround the organization they provide opportunities and threats to the environment and as we progress we will talk about them that the company or the organization must actually respond to these opportunities or threats through their strategies and through their tactics. So, the value generated by an organization is a function of how well it can respond to the opportunities and to the threats in the environment.

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So, this is here in we see that you have the inputs in the form of raw material, money capital, human resources, information, knowledge and that is converted you know into an output through machinery computers human skills and abilities. And the output is in the form of a finished good or a service and also as salaries for the staff for the work for the employees as dividends for the company and as value for shareholders and other stakeholders.

And that again you know is invested in the form of an input and the entire cycle moves on to satisfy continue to satisfy needs and wants of the society.

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CONCLUSION

This brings us to the end of the first lecture.

We shall continue with the topic in the next lecture.

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So, this I come to an end of lecture 1 of module 1 or week 1 these are the references and we shall continue with the topic in the next lecture.

Thank you.