**Lecture 1: Organisations and their changing environments**

We will examine the following four perspectives in relation to Organisations:

1. The general characteristics of organisations and their essential components.

Definition of an organisation

* In the absence of a comprehensive definition of an organisation, it is derived from a few sources.
* The outcome of such a combination of a few sources, is the *traditional description of an organisation* as a social entity where people are brought together to perform activities to achieve certain purpose (goal).
* Their activities are organised, coordinated and controlled to ensure the achievement of the intended purpose.
* On the other hand, the pursuance of its internal purpose and for its existence, the organisation cannot exist alone; it has to interact with other organisations to achieve its purpose.
* Its eventual success or failure depends on its ability to interact with these elements (such as the buyers, suppliers, competitors, government agencies and administration) outside the organisation.
* Looking from this point of view, the organisation is definitely linked to the external environment.
* This supports the concept of the Systems Theory of organisation.

The Systems Theory

* It stipulates that an organisation is like a system with many interrelated parts and they all function as a whole to achieve a common purpose.
* The organisation as a system acquires inputs from the external environment and transforms them into outputs before discharging them back into the external environment (the market).
* In this respect an organisation is likened to an “open system” but not a “closed system”.
* There is a boundary (Butler, 1991) separating the people in the organisation from those outside the organisation, *this boundary is becoming flexible and diffused* because of rapid changes in the elements existing in the external environment.
* It gives the understanding that an organisation is inseparable from its external environments in order to survive in an ever-changing external environment and internal environment and this is represented in the diagram below.

INPUTS: ENVIRONMENT

* materials
* resources **THE ORGANISATION**

**Formal Subsystems**

management strateg

goals operations \* organisational

structure technology goal achievement

\* employee satisfaction

**Informal Subsystems**

culture politics OUTPUTS

leadership

Source: Barbara Senior (2003) p. 5

Looking at the figure of an organisation, it is apparent that it is made up of two subsystems: the formal and informal.

* The Formal Subsystem

The elements in the formal subsystem such as strategy, structure, goals, operations, technology, and management and control, are devised by a single person in a small business or by a group of top managers in a large corporation.

* The Informal Subsystem

The informal subsystem is made up of elements that are culture, leadership and politics. These elements are the *intangible (hidden)* aspect of an organisation and involve in the life of an organisation relating to the patterns of communication, power and influence, values and norms in which the organisation operates its day-to-day functions. This informal subsystem which actually involves the human resources is critical for the long-term survival of an organisation.

Unpredictable World

* The world is assumed to be unpredictable and frequently chaotic in that change can occur in any direction at any time.
* Stacey (2003) pointed out that organisations are complex systems in the sense that there are many types of interactions at different aspects and levels such as individual, social, organisational and environmental and between any and all of them.
* Stacey also emphasized the difficulties in trying to understand organisations and the people within them.
* Whatever it may be, the concept of an organisation as an open system is important.
* All organisations receive inputs from their environments and provide outputs back into that environment.
* The *boundaries of organisational systems are actually permeable*.
* It is therefore difficult to deny that the strategies and activities of organisations are to meet the demands of the environments.
* An organisation is in fact an ‘open-socio-technical’ system with its formal elements (formal subsystems) and informal elements (informal subsystems) operating in multi-dimensional environments.

Daft sums up the concept of an organisation as follows:

*Organisations are social entities that are goal directed, are designed as deliberately structured and coordinated activity systems and are linked to the external environment.*

This definition has three basic components:

1. As a social entity, it is made up of people and their relationship with each other, to do things together to attain the goals of the organisation.
2. Managers deliberately structure and coordinate organisational resources of which human resource is most important, to achieve the organisation’s purpose. Even though work may be structured not separate departments or sets of activities and the use of project reams, which are made up of members from different departments to complete a project or task.
3. Boundaries between departments in the organisation are becoming more flexible and diffuse as the company faces the need to respond quickly to changes in the external environment. In a similar manner, boundaries between companies in some instances are also becoming more flexible and diffuse. This is because an organisation cannot exist without interacting with customers, suppliers, competitors and other elements of the external environment. As a consequence, today companies are cooperating with their competitors, sharing information and technology to their mutual advantage such as the supply-chains linkages and strategy alliances. (Daft, 2007, p.10)

2. Different methods of wealth creation, viewed from a historical perspective have influenced

present day organisational strategies.

* Forces in the external environment that are operating to bring about changes in organisations, can be thought of as winds of change. They can be as gentle as breezes hardly cause any disturbance to the organisations or as strong winds that can cause destructions such as gales. There are times the winds die down and there are periods of calm. These are also the periods of organisational stability.
* When the forces operating on organisations are like strong winds then they cause organisations to go through a process of destruction of their structures and operations and result in reorientation of purposes and rebuilding.

3. The Concept of organisations as systems operating in “multidimensional environments”

and its implication for understanding the causes of organisational changes”.

* Nadler & Tushman (1988) defined environment as “*all factors, including institutions, groups, individuals, events and so on, that are outside the organisation, being analysed but that have a potential impact on that organisation*.”
* Changes in one or more of these environmental factors are likely to trigger consequent changes in some or all of the ways, an organisation and its constituent components operate.
* The different environmental factors are grouped into four categories:

1. Political factors such as government legislation and ideology, law etc.
2. Economic factors such as competitors, suppliers, buyers, lending policies & others.
3. Technological factors such as new production process, information technology & others.
4. Socio-cultural factors such as demographic trends, life style changes, skill availability, ethics, gender issues.

(Note: PEST or PETS)

Multidimensional Environments

* Organisations operate in at least 3 types of environment and they together make up the total “operating environment” of an organisation.

1. The temporal environment – about historical developments which bring changes over time.
2. The external environment
3. The internal environment

External adaptation and internal integration

* The management must be able to respond to the changes in the external environment and adapt those that are imperative for the organisational growth and learning. The changes the organisation have to go through in response to the environmental changes must become part and parcel of the organisational life i.e. those changes must become *integrated* into the life of the organisation.

4. Triggers of change

* Change can be triggered from any number of directions; through historical influences,

from the external environment and from within the organisation itself – the internal

environment.

* In the past, social and technological changes influenced on the products and services offered by organisations and the way they operated. Furthermore organisations have been viewed to be operating in multi-dimensional environments - temporal, external and internal. The environments are also considered to be the “all factors that are outside the organisations that have a potential impact on the organisation. Examples of these ‘all factors’ impacting on organisations from external environment are:
* PEST (PETS) as triggers for change in organisations.
* Factors within an organisation (internal environment) as triggers for change are

culture, politics, leadership and strategy.

**What is Organisational Change?**

According to Patrick Dawson and Constantine Adriopoulos (2017):

“*Organisational change is the movement over time from existing ways of doing things*

*to alternative and new ways of operating. It is sometime planned and managed with*

*the intention of securing anticipated objectives and sometimes unplanned for and*

*unforeseen*.”

**Organisational change is a dynamic affair that continuously confront the organisation management. This is because an organisation is an open system that is part of the external environment. An organisation is subjected to the forces/triggers of change created by the elements in the external environment, task environment and internal environment. Change has become part of the life of organisations. It is something that an organisation cannot avoid or control or predict with certainty. It is elusive in nature as in a culture.**

**The constant process of change and renewal means that there will always be a need for more research and innovative forms of organising. Change creates the new that refines, combines, displaces and overlaps with what has gone before. It is something that can never be fully contained as it shifts, transforms and reshapes in unexpected ways over time. However, there are also certain recurring patterns and a number of dimensions to change that constantly arise in the literature in the development of models and theories of change**. (Patrick Dawson & Constantine Adriopoulos, 2017, p.27).

Present state: The Transition state: Future state:

status quo of the moving the aspirations for the

organisation organisation organisation

**Movement from current state to desired future state**

**Historical Content for Change**

Organisational life probably started to change from the agricultural evolution. Prior to early 1700s, when UK and Europe were in the agricultural age, it was a period of relatively calm where there was organisational stability. During this period it was possible to predict changes that were to take place. Then the industrial revolution came and this industrial age lasted until 1945. Machines began to work on the land and crops were produced in large quantities. The number of people working on the land was greatly reduced. This was the time of technological advances and social changes. Organisations became bigger in size and adopted the mechanistic structure with strict hierarchy of command and control.

After WW2, demands for products exceeded their supplies. Organisations then became concern about effectiveness and efficiency in their production in order to fill up the ‘supply gap’. The organisations became task oriented. The ideas of Frederick Taylor and Scientific Management helped to provide the ‘one best way to perform a task’. After this, Fayol and Max Weber provided the ‘one best way to structure organisations’ for efficient production. Eventually supplies of goods exceeded demands. With the excess supply of goods organisations looked for additional markets in other countries. Other countries too had the same problem and as a consequence, there were competitions for the same products and services from abroad such as the developing countries.

Next, there was a shift in interest from manufacturing to service. Today the emphasis is moving towards adding values to goods and services in order to remain competitive in the business. The manufacturers and producers of goods and services have to produce what the markets want. This creates the impetus for creativity and innovations in organisations. The traditional organisation structure can no longer meet the modern world. Organisations have to change to meet the new models where people have to contribute their creativity, energy and foresight to enable their businesses to sustain. The developed world is also challenged by the developing countries in terms of increasing competition.

The trend of changes in organisations is moving through in response to the winds of change is represented as follows:

Task-oriented product/service design Systems/Process oriented Value oriented

time time time time

***An Uncertain Future***

Today organisations are operating in a dynamic environment that no longer offer a stable and secured future. The external environment is characterised by uncertainty about markets, fluctuating demand for products, the ability to attract and retain good employees and legal requirements. The state of uncertainty can be worsened if the business condition continues to become more complex and more uncertain as the pace of change quickens and the future becomes more unpredictable. *Peter Drucker, 1988* said that future organisations would be almost wholly information-based and they would more like a symphony orchestra than the command and control, managed structures prevalence in the past.

This vision of how organisations would change as Peter Drucker predicted that the meddle-level managers would disappear and only high-grade, specialists would be present in the organisation. This predicted situation has yet to occur. But in many organisations, the number of professionals and knowledge-based workers has replaced the lower-skilled workers especially in the developed economies.

It is unavoidable that such changes in the workplace will occur in the future. With more service industries and the IT explosion the pace of change in the environment is expected to be quickened and in every direction. Managers have no choice but to become ‘mangers of change’, if not they may cease to exist. The future is the ‘age of unreason’. It is important now to understand the nature of the changes that occur in the external environment and how these forces of change disturb organisational life and analyse the factors that trigger organisational change.

**Factors that promote change: The External and Internal Environment**

A number of external and internal drivers (triggers) for promoting change have been identified within the literature. These drivers for change occur in the external environment, the task environment (that is unique to each company) and within organisation (internal factors). See diagram below.

In the case of creativity and innovation, the generation of new ideas and their translation into new products, services or ways of doing business can trigger change through internal activities (idea generation and the development of new products, processes within organisation); in the task environment (e.g. through innovations elsewhere in the supply-chain such as adopting just-in-time or the use of RFID technology) and external changes (e.g. through creative developments in competitor marketing strategies or innovation s in global communication networks).

Major political &

social events

External

environment

Demographics Labour market

& competitors

Internal

Business environment Law

markets

Core business

Unique Technology

task People

environment Administrative

structure

Technology Culture Social

values

Suppliers &

Customers

Globalization &

internationalization

**External and internal triggers and drivers of change**

(Patrick Dawson & Constantine Andriopoulos, 2017, 32)

**Activities in class**

1. Discuss the following questions and prepare appropriate responses:

1. To what extend do you think the open systems concept is helpful in understanding how organisational change might happen?
2. Case study: Strategic change at Nokia

Based in Finland, Nokia transformed from being a diverse conglomerate into a world-leading mobile phone producer in the 1990s. Since then, the company has experienced very tough operating conditions in the face of competition from Samsung and products like the Apple iPhone. Substantial layoffs and plant closure took place across the world as Nokia missed out on consumers who were turning to smartphones. By concentrating on mobile phones, Nokia also faced intense competition from large volume producers in China with lower cost structures.

A new CEO was appointed from Microsoft in 2010 and he quickly sent a memo to all employees. The memo, rick in metaphor, became known as the ‘burning platform’ memo and basically said that Nokia had missed out on some big consumer trends and was now years behind the market and, while that was happening top managers in Nokia thought they were doing the right thing and making good decisions.

The new CEO accused Nokia of lacking accountability and leadership of not collaborating enough internally and not innovating fast enough. He likened the situation that the company faced with being on a burning oil platform, the implication being that Nokia could stay where it is and perish in the flames, or jump into icy waters and have a change of survival. Despite the new CEO’s ‘call to arms’, market share, revenue, profits and share price continued to fall. In 2013, Microsoft purchased Nokia’s mobile phone business and the CEO moved to Microsoft as part of the deal.

If Nokia continues to lose share in the market then the Finnish economy will suffer further. The company had helped put Finland on the map as a technological leader and employer of a lot of people.

(i) Write a brief account on how different elements of the temporal and PEST

environments interact to influence the situation described in the case.

(ii) Consider how you could use multiple-cause diagrams to picture the multiple and

interacting causes that bring pressure for change in your own organisation or one

you know well.

Refer to pages 27 & 28 of the recommended textbook, Barbara Senior, Organisational Change, 2016 for more detail.