

# **CHAPTER 1**

## **CONCEPT OF ORGANIZATION**

- 1.1 Introduction
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# **CHAPTER: 1**

## **CONCEPT OF ORGANIZATION**

### **1.1 INTRODUCTION:**

In today's time organizations are facing various challenges than ever before. As these challenges are not specific to any particular organization, all organizations irrespective of their structure and size have to cope up with the challenges. Organizations are in front of irresistible challenges such as talent shortage, work life balance, managing diverse work force, innovative supply work patterns that encourage job satisfaction. The relationship between organizational climate and achieving results has become more integrated. Fostering a positive climate is no longer an attractive choice but rather has become imperative.<sup>1</sup>

Organizational climate is regarded as the most important significant factor for effectiveness of organization. Organizational climate portrays characteristics of an organization. Climate is the outcome of the interaction between various components of organization such as structure, culture, employee's psychological needs, system, culture, behaviour of leader etc. Organizational climate is also viewed as perception of employees about various dimensions of the organization. The success of an organization depends on its climate as it has important role to play in employee motivation, performance, growth & development, morale.<sup>2</sup>

Organizational climate has a foremost influence on organizational effectiveness as it has impact on employee's motivation and job satisfaction. Organizational climate generates certain kinds of expectations about consequences of different actions. People working in the organizations develop certain expectations and realizations of these expectations are based on how they perceive organizational climate in satisfying their needs. Hence, individual satisfaction or dissatisfaction is determined by kind of environment organization offers to their employees. As individual satisfaction determines his/her efficiency, organizational climate directly relates to individual

performance. There are four ways by which organizational climate affects individual performance, satisfaction and their attitudes are discussed as below:

- Organizational variables can function as control systems in both a positive as well negative sense by giving the understanding of what sort of behaviour are rewarded, reprimanded or ignored. Behaviour of individual is influenced by organization by associating direct rewards or punishments to different behaviours. Different values assigned to behavioural outcomes would then influence the individual behaviour interested in those particular values.
- Individual behaviour may get affected by organizational variables through self evaluation and evaluation of others which influence behaviour.
- Factors of the organization act as stimuli, which influence an individual needs and thus motivates an individual. The need will make individual active and thereby affect his level of performance.
- Individual form perception about the organization based on organizational variables. This perception then influences individual behaviour.<sup>3</sup>

The human resources are the main challenge as well as important competitive advantage for any organization. Sam Walton founder of Wal-Mart considers the people as the key to the successful organization. The technology can be procured and imitated but the people cannot be. This makes the human resources unique and indispensable factor for any organization. The human resources and the way they are managed represent the competitive advantage of organization.<sup>4</sup>

Organizations in order to carry on and beat their competitors, they have to continuously try to better their performance. Today organizational climate is gaining importance than ever before because organizations need to make sure that they value the individuals who put all their efforts for the advantage of the organization and want to stay in the organization.<sup>5</sup>

## **1.2 MEANING & DEFINITIONS OF ORGANIZATION**

Organizations are indispensable part of human life. Right from birth to death organizations touch human life. Humans depend on organizations for their education, employment, food, clothing, shelter, health, wealth, recreation, travel and much more. Life becomes unliveable without organizations. Organizations are old like the human race which can be traced from 3500 BC when massive temples were constructed through organised actions of many people. This gives evidence of existence of complex organizations where people worked cohesively for common causes.

Organizations are groups of people working independently towards some purpose. Organizations are not physical structures, they are people who work together to achieve a set of goals. People working in organizations have structured patterns of interactions through which they expect each other to finish certain tasks in an organised way. Individual or a group of people, who believe that they possess the necessary skills and knowledge, form an organisation to produce goods and services. Organization depends on its human resources for its efficiency and effectiveness.<sup>6</sup>

Economic and social entities wherein numbers of people perform diverse tasks to achieve common goals are known as Organizations. Organizations facilitate individuals in achieving their personal objectives which cannot be achieved individually. Argyris defined organizations as, “formed to satisfy objectives that can best be accomplished collectively”.<sup>7</sup>

According to Daft organizations are diverse but have common characteristics. Organizations are described as social entities that are goal directed, designed with well structured and coordinated activity systems and linked to the external environment.<sup>8</sup>

Barnard defined “Organization as a system of purposely coordinated activities or forces of two or more persons.”<sup>9</sup>

A system wherein individuals and groups operating at different levels perform the tasks assigned to them within the framework of delegated authority and

responsibility which are rationally coordinated to achieve the desired organizational goals.<sup>10</sup>

Louis A. Allen defined organization as “a process of recognizing and grouping the work that is to be carried out, defining and passing on authority & responsibility and setting up the relationships for the purpose of supporting people for working effectively together in achieving the objectives”.

According to Mooney & Reiley, “Organizations are the association of humans formed for the attainment of a common purpose”.<sup>11</sup>

Koontz and O’ Donnell defined “organization as a structural relationship which bounds enterprise together and the framework in which individual effort is coordinated”.

W. J. Duncan defined organization as a collection of interacting and mutually dependent individuals who work toward achieving common goals and whose relationships are based on certain structure.<sup>12</sup>

An organization is a system comprising of social, technical and economic elements and that converts inputs into outputs. It coordinates human and material resources to achieve manifold objectives such as making profit, providing good products & services, to be ahead in competition, to grow and be efficient, provide for the welfare of employees.<sup>13</sup>

No two or more organizations are same even if they offer the same product because organizations are made by people who operate within them and when these people enter organizations, they bring in with them their beliefs, experiences and much more.

According to Weber (1947), “Organizations involve a social membership confining the entry of outsiders by rules to the point as it is determined by the action of specific individuals”.

Bakke (1959) defined organization as "a continuing system of distinguished and synchronized human activities involved in making use of, converting and

bringing together a particular set of human, material, ideational and natural resources into distinct problem solving whole, occupied in satisfying particular needs of human in interaction with other human activities system and resources in environment”.

According to Etzioni (1964) “Organizations are defined as purposefully created and recreated social units to achieve specific goals”.

### **1.3 FEATURES OF ORGANIZATIONS:**

- **Organizations are powerful tools created by human beings:**

Accomplishing task or resolving problem results into creation of organizations. There may be organizations with less number of people or large organizations which employ more than a thousand people. Large organizations are involved in multiple activities aimed at achieving multiple goals, operating in varied locations, making growth with multiple combinations of resources and strategies. With the purposeful existence, size and control over resources organizations become versatile entities that have great potential than individuals.

- **Organization live longer:**

Launch, Growth, Maturity and Pause are different stages of organization life cycle which every organization undergoes. Managers of organizations face different challenges in different stages of life cycle. Organization grows and develops when challenges are managed well while if they are not managed well it leads to the likelihood of shut down. Organization moves into its next life cycle with the effectiveness of management.

- **Organizations are not open for everybody:**

Organization restricts the entry, only its selected members can work within the organization. Members of organization have to share roles, entitlements linked with their roles and responsibilities. Members enjoy their rights along with its use and the resources and facilities provided by the organization.

- **Organizations are systems designed for stability and Control:**  
In organizations people are assigned with work, places for specific activities to be performed and procedures as to how things are to be done. These create stability and control.
- **Organizational relationships are interdependent:**  
Organizations have hierarchy however there are certain interdependent relationships. Superiors have to sometimes depend on their subordinates.<sup>14</sup>

## 1.4 REASONS FOR ORGANIZATIONS EXISTENCE

Organizations have five different roles to play. Organization can increase the value created by it through division of labour which results into leading people to specializations, deal with the external environment, use of large scale techniques, economise transaction expenses and exercise power & control.

- **To increase specialization and the Division of labour:**  
People working in organizations become more productive and efficient in the work than people who work alone. Organizations let the division of labour leading to specialization which makes people more skilled or expert at the work they do.
- **Use Large scale Techniques:**  
New modern automated technology results in the economies of scale which in turn leads to costs saving when production of goods and services are carried out in large quantity. Because of shared tasks organizations use underutilized resources more effectively resulting into economies of scale.
- **To manage the external environment:**  
External environment comprises of not only economic, social, political factors but also the sources of getting inputs and the place of market in which outputs are distributed. Environment pressurises organization to organize productive resources. Organizations are able to manage the complexity of environments which are beyond the individual capabilities by developing specialists who anticipates the environment. Specialization

lets organization to generate value for itself, organizational members and the customers.

- **Economise on Transaction cost:**

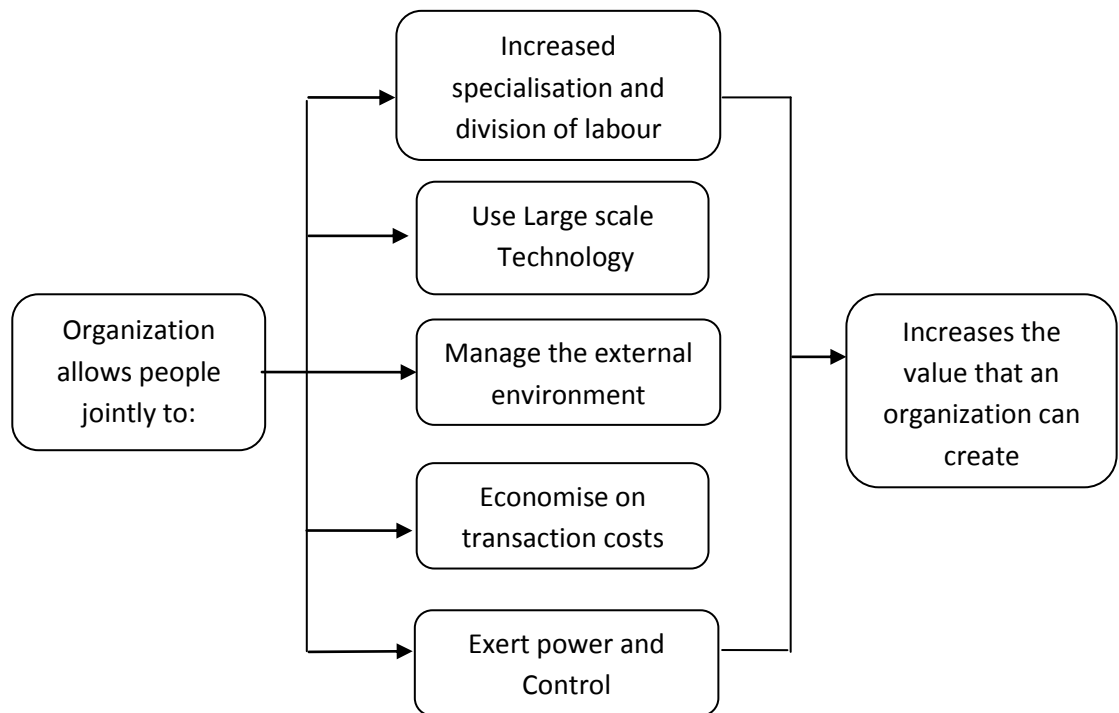
When goods and services are produced certain problems may be faced by the people such as what to do, how to do, how to perform task effectively by working with others. Division of work, amounts to be paid, verifying the contribution of each worker are the decisions needed to be taken. Transaction costs are the costs related with negotiation, monitoring and exchange between people. Organizations economise on transaction costs based on their ability to control the exchanges between people.

- **To exert Power and Control:**

For increasing the production efficiently organization exercise pressures on individuals. Individuals working in the organizations have to cater organizational needs along with their individual needs, work in the interest of organization and accept the authority of organizational managers. Organizations maintain the discipline by rewarding the good performers and by punishing or firing the people who do not conform. Thus, organization is in position to exert power over individuals.<sup>15</sup>



**FIGURE 1.1: REASONS FOR ORGANIZATIONS EXISTENCE**



*Source: Aswathappa, K. (2013)*

Thus study of organizations becomes vital for the growth and improvement of any society. Bediean and Zammuto (1991) provide reasons to study organizations. These reasons are:

- Organizations are foundation of modern society. Humans are dependent on them as they may spread through each and every aspect of modern society. Availability of goods and services, employment opportunities, growth as well as distribution of wealth gets affected by the decisions taken in business organizations.
- Organizations have enormous power. Financial and social life gets affected by them. They influence people taste, lifestyle and habits.
- Organizations are the cause for changes. Political and social changes such as national policy, job opportunities, health policies education etc gets influenced by organizations.<sup>16</sup>

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