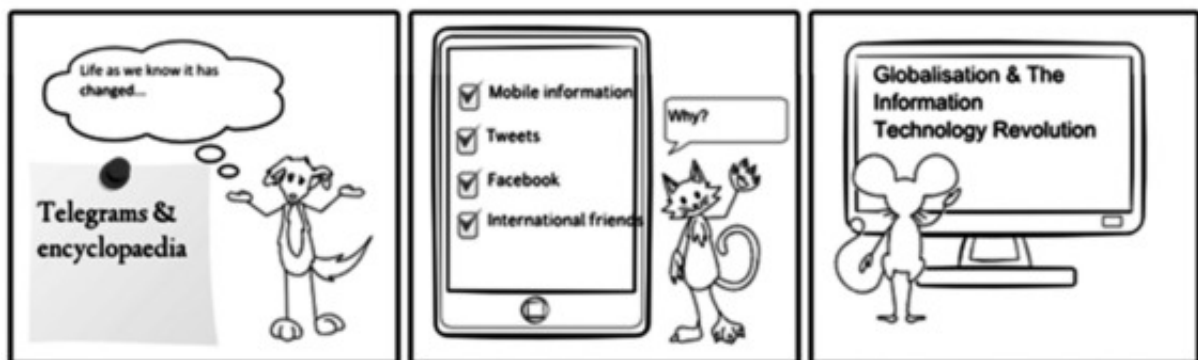


# Study unit 1

## Features of contemporary organisations and new management challenges

### 1.1 BACKGROUND

Look around you and you will see mobile communication devices transmitting information to and from around the world. As a student, you tweet, update your status on Facebook, and you may have friends in China and Uganda that you have never met. You have information readily available because you can Google the answer to any question within two minutes. Life was not always like this. Not so long ago, people still used telegrams to send short messages and had to buy a set of encyclopaedia for their children to enable them to complete their studies successfully. Ten years ago, you would probably not have had friends living in cities across the world that you have never visited.



These changes in our lives can be attributed to two factors, namely:

- globalisation; and
- the Information Technology Revolution

Globalisation is the economic and social interaction process whereby different countries work together to create a global economy. Globalisation involves technological, economic, political, and cultural exchanges between different countries, and is the result of advances in communication, transportation, and infrastructure (the Information Technology Revolution). The result of the process of globalisation is globality.

Students of business management should understand how globalisation, and major on-going advances in technology, affect organisations and the way they do business. In this study unit, you will find out how organisations had to change fundamentally in order to be able to function in the globalising world.

## 1.2 STUDY UNIT CHALLENGES

In this study unit, we challenge you to:

- cite reasons why organisations change
- identify and discuss the forces that stimulate change in organisations
- defend the statement that the bureaucracy fails to provide in the needs of the modern organisation
- expand on the features of the new emerging organisation
- identify and discuss the challenges faced by managers of the new organisation

**Work through Chapter 3 in the prescribed book.**

## 1.3 KEY CONCEPTS

- A **bureaucracy** is a system of administration marked by rules and regulations, red tape and proliferation.
- **Customer capital** is the **value of relationships** that an organisation builds with its customers, – reflected in their loyalty to the organisation and/or its products.
- **Diversity** is the state of being different.
- **Globalisation** is the economic and social interaction process whereby different countries work together to create a global economy.
- A **global organisation** operates in many countries as an integrated unit.
- A **flat structure** is an organisational structure with fewer levels of management.
- **Human capital** is the health, knowledge, motivation, and skills of employees; the attainment of this is an end in itself.
- **Intellectual capital** is the collective knowledge (whether or not documented) of the individuals in an organisation or society.
- An **international organisation** operates in many countries but keeps the operations in each country separated.
- The **Information Technology Revolution** is a term that describes the economic, social and technological trends that occurred because of major technological advances in the world.
- An **open system** is one that interacts with its environment.
- **Structural capital** refers to the competitive intelligence, formulas, information systems, patents, policies, processes, and so on, that result from the products or systems the organisation has created over time.
- **Synergy** occurs when many elements or subsystems work together to create an outcome that is of more value than the total of what the individual input is.
- A **system** is a set of interrelated parts designed to achieve a singular purpose to stay in balance.
- A **system boundary** separates a system from its environment.

## 1.4 INTRODUCTION

Organisations had to **change fundamentally** in order to be able to function in the global world. This is mainly due to **forces** in the environment, which change the way in which organisations operate. Systems theory is the basis from which we study organisations, how we manage them, and it refers to changes in the environment of an organisation that cause **changes in the organisation itself**.

*Systems theory implies that we view the **organisation** as a system consisting of value-adding parts that work together to achieve a common goal and purpose. **Systems theory** focuses on the interaction between the parts of a system. Instead of reducing a system, such as the solar system, into its parts or elements (e.g. sun, earth, Venus), systems theory focuses on the relationships between the parts of the system, how they work together as a whole and the interrelationship between them. The effect of the **interrelationship** between **parts** is that a change in one part could cause a change in one of the other parts.*

## 1.5 FORCES THAT CAUSE ORGANISATIONS TO CHANGE

Study the **six change stimuli** discussed in the prescribed textbook. Figure 1.1 contains a mind-map of the textbook content pertaining to the six major forces for change in organisations. Feel free to add and change the mind map according to your own understanding (we all learn in a different ways).

## 1.6 THE CLASSIC MODEL OF THE FORMAL ORGANISATION

In management literature, some authors state that major changes in the business environment during the past two decades caused a “new” kind of organisation to emerge. In order to study the “new” organisation one should understand the “old” organisation, its strengths and its weaknesses. The “old” organisation features the characteristics of Weber’s Bureaucracy. He developed this organisation model at the turn of the nineteenth century. According to Weber’s model, organisations should subscribe to several **desirable characteristics**, such as:

- division of labour
- hierarchy of authority
- rules and procedures
- impersonality
- employee selection and promotion

Table 1.1 lists the strengths and weaknesses of the bureaucracy

**Table 1.1: The strengths and weaknesses of the bureaucracy**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>● Predictability</li> <li>● Resilience</li> <li>● Impartiality</li> <li>● Expertise through specialisation</li> <li>● Clear lines of control</li> </ul>	<p>The weaknesses of the bureaucracy lie in its assumptions, namely:</p> <ul style="list-style-type: none"> <li>● large amounts of standard information has to be processed</li> <li>● the needs of customers are known and not likely to change</li> <li>● technology is routine and stable</li> <li>● organisations deliver standard products and services</li> </ul>

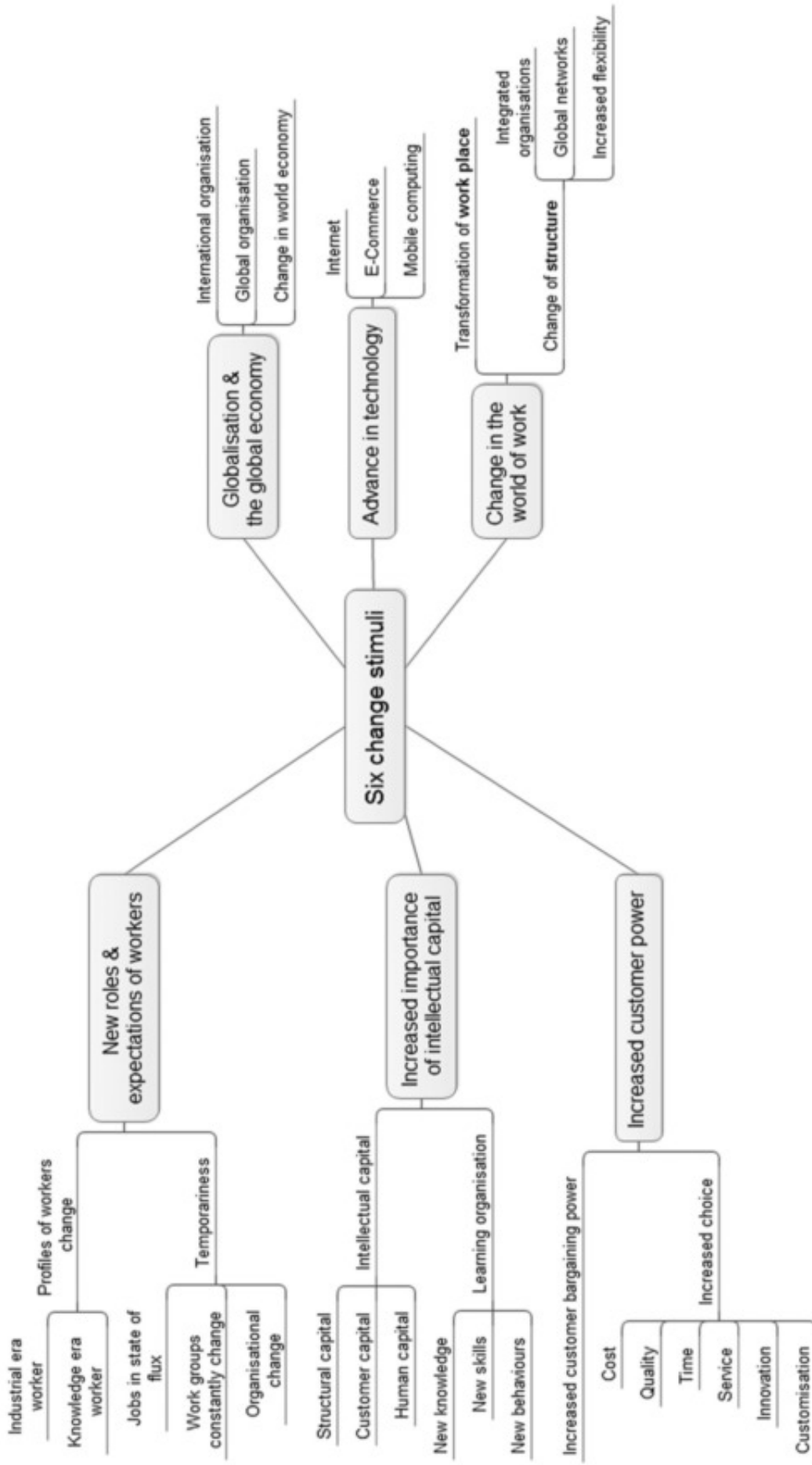


Figure 1.1: The six change stimuli

However, due to rapid environmental change, the very strengths of Weber's model became its weaknesses.

## 1.7 THE NEW ORGANISATIONAL MODEL

The “new” organisation has several features that differ substantially from those characterising the bureaucratic organisation. These are summarised in Table 3.2 of your prescribed textbook. The features that distinguish new organisations from the bureaucracy are that they are flatter and leaner, flexible, networked, global, and diverse. Figure 1.2 provides a mind map of these features.

## 1.8 CONCLUSION

Many South African organisations feature some of the characteristics of “new” organisations. Some organisations adopt some or all of the features, while others are still functioning as traditional bureaucratic organisations. In this study unit, we examine how organisations had to change in order to function in a globalised world.

## 1.9 ADDITIONAL LEARNING EXPERIENCES

If you have access to the internet, you should consider visiting the following websites. This is **NOT COMPULSORY**, but these websites all contain interesting information and examples pertaining to this study unit.

- Globalisation  
<http://www.youtube.com/watch?v=3oTLyPPrZE4>
- Organisational change  
[http://www.youtube.com/watch?v=Ulx7uUmK\\_Q](http://www.youtube.com/watch?v=Ulx7uUmK_Q)

Interesting **tweeple** (people and/or organisations) that you could follow on Twitter:

@Stateofglobe

## 1.10. ASSESSMENT

This section contains self-assessment questions that you can use to assess your knowledge of the study unit.

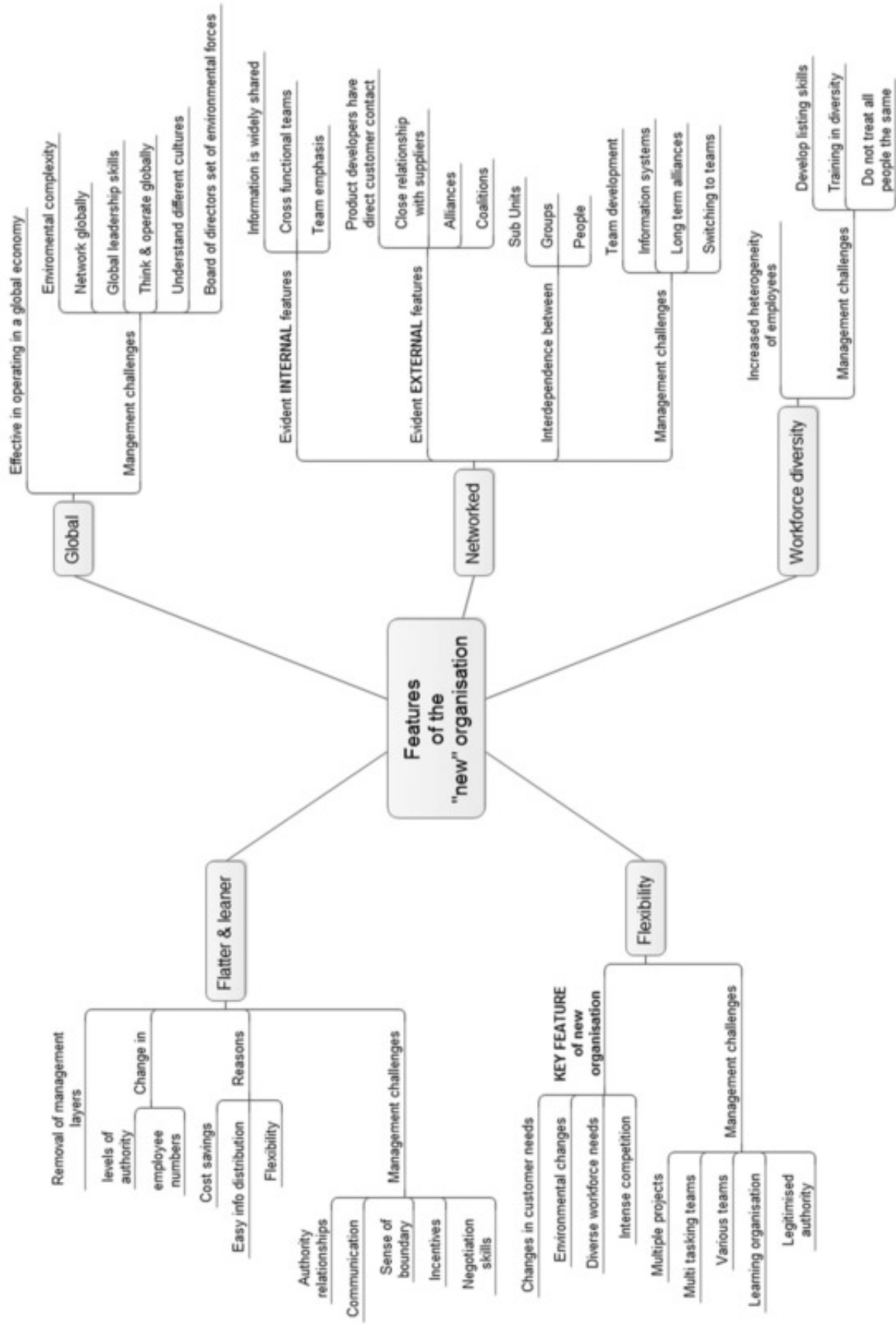


Figure 1.2: The features of the new organisation

## SECTION A: MULTIPLE CHOICE QUESTIONS

- 1.1 Which of the following is **not** a strength of the traditional organisational model?
- 1 predictability
  - 2 clear lines of control
  - 3 impartiality
  - 4 rigid rules
- 1.2 When examining the **dimensions of the workforce** in the old organisation as compared to the new organisation, one could say that workers in the traditional old organisation are \_\_\_\_\_ , while workers in the new organisation should be \_\_\_\_\_ .
- 1 inflexible; flexible
  - 2 compliant; committed
  - 3 homogeneous; diverse
  - 4 efficient; innovative
- 1.3 A(n) \_\_\_\_\_ organisation operates **without the constraint of national boundaries** and seeks to trade in high potential markets.
- 1 international
  - 2 national
  - 3 global
  - 4 multinational
- 1.4 A **networked organisation** exists only when certain factors operate in support of one another. Identify these factors in the list below responsibility
- a responsibility
  - b alliances
  - c goal setting
  - d coalitions
  - e information technology
- 1 a, b, d
  - 2 a, c, e
  - 3 b, c, e
  - 4 c, d, e

1.5 The characteristic of the new organisation that many contemporary organisations exhibit, although they may not have any of the other features of new organisations, is that they are \_\_\_\_\_ .

- 1 global
- 2 networked
- 3 flat
- 4 flexible

### Questions 6 to 8

Match the new challenges for management in **column B** to the features of new organisations in **column A** that it is most likely to affect.

<b>Column A</b> Feature of new organisation	<b>Column B</b> New challenges for management
6. Global organisation	1 Managers must work on more than one project at a time
7. Networked organisation	2 Managers must develop negotiating skills
8. Flat organisation	3 Developing and continuously adapting information systems
	4 Understanding cultural diversity

## SECTION B: PRESCRIBED TEXTBOOK

Try to answer the review questions in the prescribed textbook.

## SECTION C: TUTORIAL LETTER 101

Complete the questions that relate to this study unit from the assignment in Tutorial Letter 101.



## 1.10 END OF STUDY UNIT CASE STUDY

Read the following case study and answer the questions that follow.

### Meeting global and local needs

#### A Siemens case study

*Siemens AG is a global electrical and electronics company with a turnover of 53 billion Euro. The organisation employs over 450,000 people worldwide and is based in Munich, Germany. From there, executives oversee work carried out, in the name of Siemens, all over the world.*

*There is hardly an aspect of our lives that is not touched by the company's work.*

*We can toast bread in a Siemens toaster powered by electricity generated and distributed by Siemens, travel on a Siemens train, or pass through traffic lights in a car, which use Siemens technology. Hospitals conduct life-saving MRI scans on patients using Siemens advanced medical imaging technology.*

*Siemens is a multi-sector business. The company specialises in finding new ways to improve our quality of life and work. Businesses, health service trusts, local authorities, government and government agencies all use Siemens expertise. This expertise includes ICT, healthcare, transport and energy.*

*Siemens is multi-national organisation. It operates across 190 separate nation states. Executives in Germany and across the world must make decisions in the best interests of Siemens' stakeholders. Like most multi-nationals, Siemens must make decisions about where their separate activities should take place. For Siemens, it is not efficient to design and manufacture all products in every country. It is more efficient to concentrate manufacturing to keep economies of scale through specialisation. Products can then be shipped anywhere within the group.*

*One danger of being multi-national is the threat caused by currency fluctuations. The price of products supplied from one place to another can vary because of currency changes. The value of the Euro can rise against the US dollar, which can result in Siemens becoming more expensive in Europe than its US competition.*

*Siemens has an internal risk management function to check this threat and steps can be taken to avoid its damaging effects.*

*Siemens customers can buy raw materials from any supplier. The cheapest supplier, however, may not have access to technical expertise and high levels of service. Siemens offers highly technical products with service benefits added in. This sort of service capability drives a competitive advantage over other suppliers.*

*Using its worldwide presence, Siemens aims to meet the needs of a range of global markets. All its companies report to the German parent company. To deliver value to the overall group, each separate company must meet the needs of its own customers, wherever they are.*

*Within every organisation, there is competition between countries for investment. Siemens has established global 'centres of excellence' that can serve the specialist needs of the entire group.*

*Siemens works within a new global strategy, 'Siemens One'. In all its activities, customers can call upon the potential of other Siemens groups. Siemens groups use a team approach where the philosophy is that if one does not possess a skill, another will. If a particular part of the company requires something offered by another elsewhere, then that product or service is supplied.*

*The trend at Siemens is towards providing more company services. Working in long-term relationships with both private and public sector bodies, it is a partner in success. In this way, it is becoming an essential part of continued growth and service improvement.*

*Through buying other companies and strategic alliances with suppliers, Siemens has*

grown, while acquiring a different skill set that enabled them to become a household name in electronics. Siemens helps businesses concentrate on what they do best, e.g. in media and broadcasting, Siemens has a 10-year deal to provide broadcast and IT services to the BBC. They develop their 'core competency'.

Siemens' aim is to be profitable. It seeks to be a global leader in electronics and electrical engineering.

Although the global Siemens HQ is based in Germany, Siemens in the UK is responsible for looking after the UK market. Local management is empowered to create relationships with customers. Siemens is proud of its flat struc-

ture and flexibility as this allows the company to better meet local needs.

Siemens continually acquires new companies to offer what its customers' need, which is increasingly end-to-end integrated solutions that allow them to concentrate on their core business. Siemens, both in the UK and globally, is a dynamic and responsive business.

**Adapted from:** The Times 100 (2013a).

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## 1.11 STUDY UNIT REVIEW QUESTIONS

Answer the following questions – based on the Siemens case study.

- 1.1 Is Siemens a global or international organisation? Substantiate your answer with evidence from the case study.
- 1.2 Providing evidence from the case study, would you classify Siemens as a “new” organisation?
- 1.3 Identify two change stimuli present in the case study.