BUSINESS ORGANIZATION

John O'Shaughnessy

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Volume 22

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published in 1966

This edition first published in 2013
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

Simultaneously published in the USA and Canada
by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-0-415-65793-8 (Set)
eISBN: 978-0-203-38369-8 (Set)
ISBN: 978-0-415-82473-6 (Volume 22)
eISBN: 978-0-203-62353-4 (Volume 22)

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JOHN O'SHAUGHNESSY

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London
GEORGE ALLEN & UNWIN LTD
RUSKIN HOUSE . MUSEUM STREET

FIRST PUBLISHED IN 1966
SECOND IMPRESSION WITH CORRECTIONS 1968

PRINTED IN GREAT BRITAIN
in 11 point Baskerville type
BY T. & A. CONSTABLE LTD
EDINBURGH

FOREWORD

If business executives already have too much to read, what can be the justification for offering them still more? One answer to this compelling question is that this series has been so designed that it should help the busy manager to short circuit the literature and still arrive at a developed and informed stage of self improvement, assuming that he believes that such a course is necessary.

There have been numerous books published on general management principles and practice, and the repetition from one book to the next has, not unnaturally, been considerable. At the same time, each book of any merit has carried management understanding a step further. In this series the aim has been to place before the management student (and he need not necessarily be undergoing a formal course of study) a profile of management thought and practice in the past half century, during which economic thinking has matured and management theorising has been trying out its first few stumbling paces.

For historical reasons there has been much more activity in management studies in the United States than in Europe, and consequently the literature, especially for the English speaking countries, has been dominated by American writers. A great deal of what they have had to offer has been of immense value, but nevertheless the approach has not always been appropriate to the British industrial and commercial scene. In recent years, therefore, British managers have welcomed the emergence of a management literature in their own country, which is more directly suited to their needs, and it is the hope and expectation of the editor and authors of this series that it will take its place alongside the existing material, and supplement it in a useful way.

Each contribution to the Studies in Management series is planned to be comprehensive and analytical, surveying the particular field of study, commenting helpfully upon it and, where possible, offering dispassionate judgements. As far as management studies can be comprehended in separate compartments these books will attempt, to initiate the newcomer and refresh the veteran, beginning with organization theory, which has had a complex and involved development, moving on to management principles and their application, to industrial sociology, industrial relations and other well defined areas of study.

At this juncture in the shaping of management studies, textbooks intended to provide short cuts for the examinee may not be merely premature but positively misleading. It has been assumed that what is most needed is a reasonably brief, readable, and reliable account of what has been written, said or done, and to what point this thought and application has brought the practising manager on his long road to 'professionalism'.

Management studies is not at a crossroads. In its present state it is more apt to say that it has reached a roundabout off which there are many roads. Perhaps this series can supply a few fingerposts.

ANDREW ROBERTSON

PREFACE

BUSINESS organization theory is expanding rapidly, so much so that even the professional student of the subject finds difficulty in keeping abreast of the literature. There are different schools of thought, which in this book are broadly grouped into the classical, the human relations and the systems, and which speak different languages, take different viewpoints and are often antagonistic towards each other. How then is the businessman, with so little time to spare, to avoid the bewilderment which arises from the conflicting advice offered to him?

This book reviews the various approaches and mediates between the hostile points of view. Only the three approaches defined above are still distinguished. Each of these could, however, have been broken down still further as this broad classification ignores many minor differences among writers that could give rise to sub-grouping and cross-grouping.

The aim of this book is to give the reader an understanding of the many factors that appear relevant to a study of business organization. The view expressed is that these factors should be drawn from all three approaches; no one approach has a monopoly of relevant theory. It is not intended to be encyclopaedic, but rather to give a broad survey in which the emphasis is on the more immediately useful branches of the theory.

Throughout the book, theoretical findings are supplemented by examples drawn from the practical problems of business management. Not only do they cover production and administration, but many of them are also drawn from the field of marketing. The inclusion of these latter is deliberate, since so many textbooks on organization have neglected this important function.

The structure of the book, the selection of its topics and the opinions expressed in it are the responsibility of the author alone. Nevertheless, it could not have been written without the help of colleagues, both in business and the academic field. Prominent among these are Professor T. Singleton, R. Stansfield, P. A. Losty, R. G. Lacey and Professor F. de P. Hanika. Special mention must be made of the contribution made by Professor S. Eilon and M. B. Godfrey in reading the drafts in detail and making suggestions for their improvement.

In preparing this book I have also had the able assistance of my Cranfield colleague, Albert Battersby, who more than anyone helped in the preparation of the manuscript and editing and revising my drafts. My thanks are also due to the 'ghost squad'— Ann Smith who typed the manuscript, Johnny Johnson who helped to prepare the illustrations and my wife who acted as my amanuensis.

Finally, I am grateful to the following for permission to reproduce diagrams from their publications:

Richard D. Irwin, Tavistock Publications, Holt, Rinehart & Winston, Inc., Management International, University of Illinois Press, McGraw-Hill Book Company and John Wiley and Sons.

CONTENTS

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CHAPTER 1

INTRODUCTION

APPROACHES TO ORGANIZATION

IF the work of running a business is beyond the capacity of one person to perform, it has to be shared out among others. This brings with it the problem of getting people to act in unison with each other. Organization is a matter of dividing work among people whose efforts will have to be co-ordinated. In practice, it is also concerned with specifying objectives for the business as a whole and each of its sub-units and determining, in broad terms, the activities and decisions necessary to accomplish these objectives.

Deficiencies in organization give rise to many inefficiencies:

(i) Departments and sections may be unable to contribute sufficient to overall objectives to justify their cost. Conversely, objectives may be pursued unsatisfactorily because of a reluctance to set up a section or department (for example a costing or market research department), the existence of which is a prerequisite to achieving adequate end results.

(ii) Functions may not be co-ordinated on a companywide basis. For example, a uniform policy on recruitment or wages may be lacking, its absence leading to anomalies and conflict between departments.

(iii) There may be a failure to co-ordinate interdepartmental activities. As a consequence, overall economies may be sacrificed and 'bottlenecks' in the flow of work may arise as each department acts independently of others.

(iv) Decisions may be too slow and poor in quality because (a) the managers concerned are overloaded, (b) the information required for decision-making is not readily available, or (*c*) the decisions are being made at the wrong place or level.

Three main approaches to organization can be distinguished: **Classical, Human Relations** and **Systems**. All three approaches cover aspects of organization which cannot be ignored though they emphasize factors that sometimes pull in opposite directions. Fig. 1 illustrates each of the approaches.

The classical approach to organization is to study the *activities* that need to be undertaken to achieve objectives. Once these activities are identified, they are grouped to form individual jobs, sections and higher administrative units, the aim being to get efficient specialization and co-ordination without physically overloading supervisors or managers. Co-ordination is further facilitated by linking people together in a chain of command and by ensuring that each person knows where his responsibilities end and another's begins. The classical approach also attempts to establish rules (the so-called 'principles' of organization) to act as criteria in developing an organization.

The human relations approach starts with a study of man's *motives* and *behaviour*. From such a study, criteria are derived which will help in designing an organization that stimulates people to co-operate in achieving the aims of the business. There can be no effective co-ordination of activities unless people are willing to co-operate, and such co-operation is not achieved automatically but may be evoked by the organization.

The systems approach concentrates on the *decisions* that need to be made to achieve objectives; the organization is thus designed to facilitate decision-making. Decision-making, rather than activities, is chosen for study because it is through the process of decision-making that policies are laid down and actions taken that result in the future success of the company. However, since decisions require information and information has to be communicated, the approach not only studies the decision process itself but also the information and communication which precede and succeed it. Communication of information is vital in the large business, as without it there can be neither co-operation nor co-ordination.

SETTING OBJECTIVES

A company seeks certain objectives: each activity within a company derives its significance from the contribution it makes to them. If we were to seek improvement of an organization

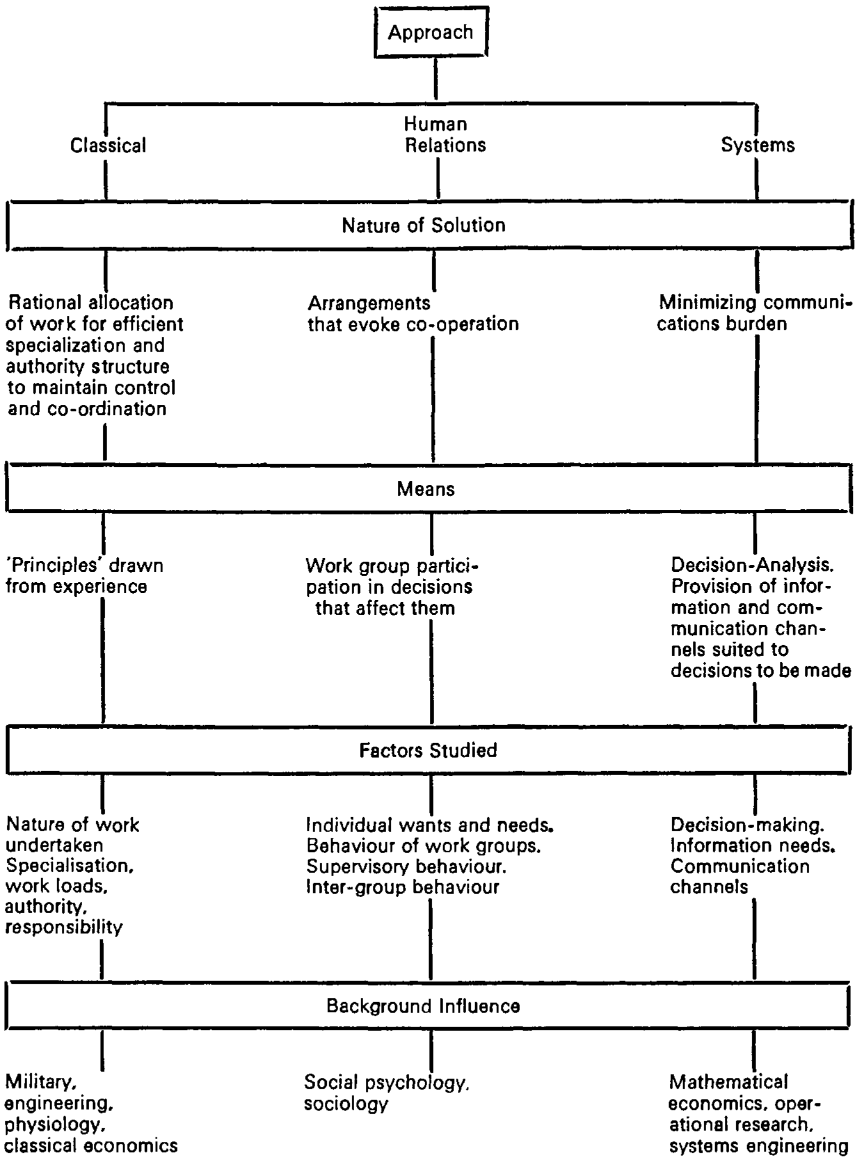


FIG. 1.—Organization.

without first examining these objectives, we might well risk thinking of better ways of organizing unnecessary activities or, alternatively, be guilty of proposing cheaper ways of achieving unsatisfactory end-results.

A company may make no explicit statement of its objectives. They may be implicit, or people within the company may agree on the action to be taken without agreeing on the purposes served by the action. However, there are advantages in formally setting out objectives.

(i) Where objectives are absent or misunderstood there is a danger that action will be taken in pursuit of ends which no longer contribute to them. Setting them out formally facilitates their communication within the company and such communication lessens the risk of misunderstanding.

(ii) If objectives are made explicit, any conflicts among them are more likely to be discovered, with consequent attempts at reconciliation.

(iii) Explicit criteria for judging overall company performance are provided, unless the formal statement of objectives is merely for 'propaganda' purposes and conceals the true ones.

(iv) Objectives are based on forecasts, and it is by considering the future that setbacks and opportunities are anticipated.

Time Span Covered by Objectives

Objectives refer to future expectations; some are designed to cover the immediate future, say, the next six months. They can usually be specified clearly in terms of time and degree so that they are often referred to as 'proximate goals'. Such goals need to be qualified by the longer term objectives which aim to cover, say, from one to five years. These, in turn, are linked to still longer term objectives, say from five to twenty years. All need to be related to each other so that conflict between the short term and long term can be resolved. For example, high profit may be achieved during the short period by lowering quality, but this may be at the expense of the longterm profit position.

Objectives are based on assumptions about the future. Hence their reliability depends on the extent to which future conditions can be forecast. The further ahead the period considered, the greater the uncertainty about the future and the more the objectives have to be stated in general terms.

This chapter is mainly concerned with setting objectives for the one-to-five year period; no single orderly sequence of steps exists for doing so. There is a large element of trial and error since each step taken depends on information derived from other steps.

Coverage

Objectives are set in series. In Fig. 2, each tread on the staircase symbolizes an objective and each riser symbolizes a means. Any

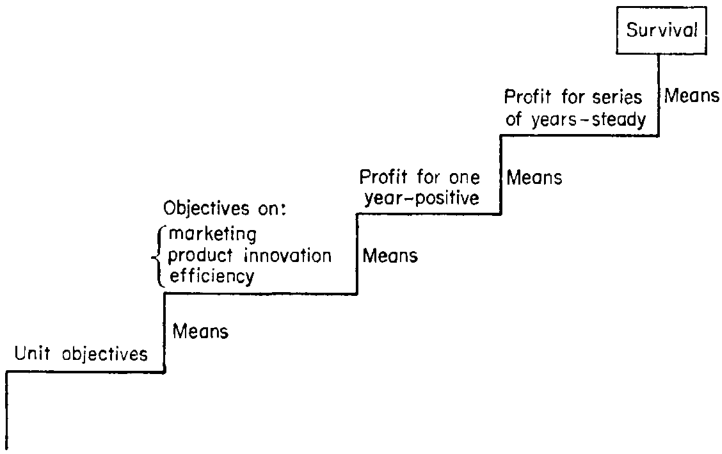
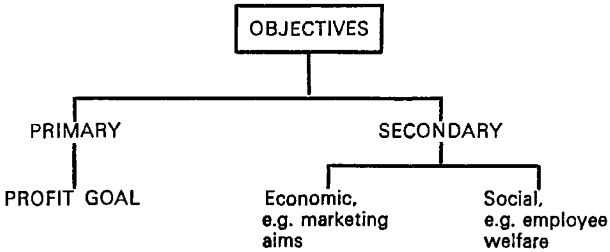


FIG. 2.—Each tread of the staircase symbolizes an objective and each riser symbolizes a means. Each objective is thus an intermediate goal serving as a means of achieving some higher objective.

objective can thus be shown to be an intermediate goal serving as a means in achieving some higher objective. If we are justified in speaking of *ultimate* objectives, that of a company is to survive; this, in turn, necessitates making a steady profit. However, to declare survival to be the objective of a company would be too broad a guide line for organization planning. We need to descend the staircase and declare how survival is to be sought. Here information is needed about economic, technological, social and political trends, and company resources and existing commitments must be assessed. On the basis of such data, objectives are chosen. They can be classified as in the diagram below



The *primary* objective is to make a steady profit. Secondary objectives can be either economic or social. Economic objectives, such as the market need which the company aims to satisfy, stem from the profit motive. Social objectives, such as standards of employee welfare, do not stem directly from the profit motive but usually have to be accommodated within some specific range of profit. It is with the primary objective and the main economic objectives that the discussion below is concerned. The choice of economic objectives is based on the recognition that, if the profit of a company is to be improved through managerial effort, then such effort must be applied to

(i) selling more at existing margins without prejudicing future sales,
(ii) reducing costs,
(iii) producing new products that give a better return to investment allowing for the risk involved.

Primary Objective—Profit

Profit is the primary objective of any company in a free enterprise economy. It is sometimes denied that this is so and that other goals may be equal or more important. Chamberlain, an economist, points out that top company executives have contributed to this belief by claiming multiple responsibilities—not only to shareholders but to the community, suppliers, employees, customers, and acknowledging that the interests of all these parties are not equally served by the pursuit of profit.[1] However, top executives seldom explain a low profit position by acknowledging the priority of other goals except when these other goals have been forced upon them, as when BOAC claimed that its losses arose mainly from being compelled by the Government to stake millions of pounds 'unseen' on new British aircraft, and to being required to run services ('carry the flag') along unprofitable routes.

Directors of a public company do not enjoy an easy life if they make relatively low profits. They are subject to criticism from financial commentators since profit is the criterion used in assessing whether the effort put into producing and selling is worth more than the expense of doing so. They may also have difficulty in raising capital; additionally they run the risk of a take-over and finding themselves jobless. In any case, progress in many companies is almost 'institutionalized'.

Units are set up whose sole function is to improve the profit position of the company and budgeting procedures are established which emphasize cost reduction and profit. Profit may thus become the primary objective even if top management regard profit as merely one among a number of equally important objectives.

It is not suggested that companies seek singlemindedly *maximum* profit as theoretical economists assume, but that they seek first and foremost to achieve a 'satisfactory' profit. Where several objectives are considered primary ones (as has been the case with our nationalized industries) emphasis on objectives may vary more in tune with the politics of the moment than with changes in the market or technology. One single unambiguous criterion, such as profit, simplifies the search for and the selection of relevant means, as it is a basis for choice.

If profit is the primary objective, what constitutes a satisfactory profit? There are many difficulties in making the concept of profit operational. Although a company in the long run aims at a steady rate of return that justifies the risk undertaken, the interpretation of the terms used in this statement require many judgments to be made, namely,

(i) 'In the long run.' How far in the future are profits to be calculated?
(ii) 'Rate of return.' Is the rate of return to be calculated on sales, net worth or total assets?
(iii) 'Risks undertaken.' How are we to combine profits and probabilities in making a choice? A company which is short of capital might prefer a 10 per cent return to invest-