# 9. Organizational theory

Organizational theory is the sociological study of formal social organizations, such as businesses and bureaucracies, and their interrelationship with the environment in which they operate. It complements the studies of organizational behavior and human resource studies.

## 9.1 Rise of organizations

Organizations, which are defined as "social units of people that are structured and managed to meet a need or to pursue collective goals ("Organizations")," are said to have risen in the United States within a variety of social and historical contexts. Several of those factors are credited with making organizations viable and necessary options for citizens, and they built on one another to bring organizations to the level of importance that they are at today.

In 1820, about 20% of the United States population was dependent on a wage income. That number increased to 90% by 1950. Generally, farmers and craftsmen were the only ones by 1950 who were not dependent on working for someone else; prior to that, most people were able to survive by hunting and farming their own food, making their own supplies, and remaining almost fully self-sufficient. As transportation became more efficient and technologies were further developed, self-sufficiency became an economically poor choice. As in the Lowell Textile Mills, various machines and processes were developed for each step of the production process, thus making mass production a cheaper and faster alternative to individual control. In addition, as the population grew and transportation progressed, the pre-organizational system struggled to support the needs of the market. These conditions made for a wage dependent population that sought out jobs in growing organizations, leading to a shift from individual and family production.

In addition to a shift to wage dependence, externalities from industrialization also created a perfect opportunity for the rise of organizations. Various negative effects such as pollution, workplace accidents, crowded cities, and unemployment became rising concerns. Rather than small groups such as families and churches being able to control these problems as they had in the past, new organizations and systems were required in order to keep their heightened effects down. The smaller

associations that had contained various social issues in the past were no longer viable, and instead were collapsed into larger formal organizations. These organizations were less personal, more distant, and more centralized; but, what they lacked in locality, they made up for in efficiency. Along with wage dependency and externalities, growth of industry also played a large role in the development of organizations. Markets that were quickly growing and expanding needed employees right away – because of that, a need developed for organizational structures that would help guide and support these new employees. Some of the first New England factories relied on daughters of farmers at their onset; later, as the economy changed, they began to gain work from the farmers, and finally, European immigrants. Many Europeans left their homes for the promises of US industry, and about 60% of those immigrants stayed in the country. They became a permanent class of workers in the economy, which allowed factories to increase production and produce more than they had before.[1] With this large growth came the need for organizations and leadership that was not previously needed in small businesses and firms.

Overall, the historical and social context in which organizations rose in the United States allowed for not only the development of organizations, but also for their spread and growth. Wage dependency, externalities, and growth of industries all played into the change from individual, family, and small-group production and regulation to large organizations and structure.

Even though the decline in small business might not seem to substantiate how the development in organizations leads to increased aggregate economic return, it exemplifies the cut-throat nature of capitalism. As organizations develop, they devour the smaller organizations that cannot keep up, but also allow for the evolution of innovative management and production techniques for other larger companies. The development of organizations demands a higher level of skillset from workers as it continues to grow. It also builds precautionary measures on cutting edge technology. It amplifies the need for specialization and accounts of functionalism in various organizations and their respective societies. Through much advancement in the interaction of capitalistic bureaucracies, the development of organizations is what has driven contemporary firms to thrive in its modern day society.

## 9.2 Competing theories of organization

As organizations are implemented over time, many people experimented as to which one was best. These theories of organizations include Bureaucracy, Rationalization (Scientific Management), and the Division of Labor. Each theory provides distinct advantages and disadvantages when implemented. However, there is no best way to organize labor. For instance, the division of labor may be more effective for a car company, while a bureaucracy is more effective for a government program such as the FDA.

-Weber's Ideal of Bureaucracy Official Jurisdiction on all areas are ordered by rules or laws already implemented.

-There is an office hierarchy; a system of super- and subordination in which there is supervision of lower office by higher ones.

-The management of the modern office is based upon written rule, which are preserved in original form.

-Office management requires that of training or specialization.

-When the office is developed/established it requires the full working capacity of individuals.

-Rules are stable and can be learned. Knowledge of these rules can be viewed as expertise within the bureaucracy (these allow for the management of society)

-When a bureaucracy is implemented, they can provide accountability, responsibility, control, and consistency. The hiring of employees will be an impersonal and equal system.

Although the classical perspective encourages efficiency, it is often criticized as ignoring human needs. Also, it rarely takes into consideration human error or the variability of work performances (each worker is different).

**Challenger Tragedy:** overlooked the possibility of human error. Three Mile Island Incident

## 9.3 Rational system perspective

In a rational organization system, there are two significant parts: Specificity of Goals and Formalization. Goal specification provides guidelines for specific tasks to be completed along with a regulated way for resources to be allocated. Formalization is a way to standardize organizational behavior. As a result, there will be stable expectations, which create the rational organizational system.

Scientific Management: Taylor analyzed how to maximize the amount of output with the least amount of input. This was Taylor's attempt to rationalize the individual worker.

1.Divide work between managers and workers

2.Provide incentive system (based on performance)

3.Scientifically trained workers

4.Create a science for each individual's responsibilities

5.Make sure work is done on time/efficiently


There are problems that arose out of scientific management. One is that the standardization leads workers to rebel against the mundanes. Another is that workers may reject the incentive system because they are required to constantly work at their optimum level, an expectation that may be unrealistic.

## 9.4 Division of labor

The division of labor is the specialization of individual labor roles. It is often associated with increasing output and trade. According to Adam Smith, the division of labor is efficient due to three reasons: occupational specialization, saving from not changing tasks, and machines taking the place of human labor. Occupational specialization leads to increased productivity and distinct skill. Also, Smith argued that human and physical capital must be similar or matched; if the skill of workers were matched with technological improvements, there would be a major increase in productivity.

Although the division of labor is often viewed as inevitable in a capitalistic society, there are several specific problems that may arise. They include a lack of creativity, monotony, and lack of mobility. Creativity will naturally suffer due the monotonous atmosphere that the division of labor creates. Doing the same routines may not be for everyone. Also, employees aren't familiar with other parts of the job. They cannot assist employers of different parts of the system.

## 9.5 Modernization theory

Modernization "began when a nation's rural population started moving from the countryside to cities" (Shah 3).It deals with the cessation of traditional methods in order to pursue more contemporary effective methods of organization. Urbanization is an inevitable characteristic of society because the formation of industries and factories induces profit maximization. It is fair to assume that along with the increase in population, as a result of the subsequent urbanization, is the demand for an intelligent and educated labor force (Shah 3). Following the 1950s, Western culture utilized the effects of mass media coverage to communicate their good fortune attributed to modernization. The coverage promoted "psychic mobility" among the social class and increased the aspirations of many hopefuls in developing economic countries (Shah 4). Under this theory, any country could modernize by using Western civilization as a template.

Although this theory of modernization seemed to pride itself on only the benefits, countries in the Middle East saw this movement in a new light. Middle Eastern countries believed that the media coverage of modernization implied that the more "traditional" societies have not "risen to a higher level of technological development" (Shah 6).Consequently, they believed a movement that benefits those who have the monetary resources to modernize technological development would discriminate against the minorities and poor masses (Shah 6). Thus, they were reluctant to modernize because of the economic gap it would create between the rich and the poor.

The growth of modernization took place beginning in the 1950s. For the ensuing decade, people analyzed the diffusion of technological innovations within Western society and the communication that helped it disperse globally ("Modernization theory"). This first "wave" as it became known had some significant ramifications. First, economic development was enhanced from the spread of new technological techniques. And second, modernization supported a more educated society (as mentioned above), and thus a more qualified labor force ("Modernization Theory"). The second wave took place between the years 1960 and 1970. This period was labeled anti-modernization, because it saw the push of innovations of Western society onto developing countries as an exertion of dominance ("modernization theory"). It refuted the concept of relying heavily on mass media for the betterment of society. The last wave of modernization theory, which took place in the 1990s, depicts impersonality (Perrow 737). As uses of newspapers, TVs, and radios become more prevalent, the need for direct contact, a concept traditional organizations took pride in, diminishes. Thus, organizational interactions become more distant ("Modernization Theory").

According to Frank Dobbin, the modern worldview is the idea that "modern institutions are transparently purposive and that we are in the midst an evolutionary progression towards more efficient forms (138)." This phrase epitomizes the goal of modern firms, bureaucracies, and organizations to maximize efficiency. The key to achieving this goal is through scientific discoveries and innovations (Dobbin 139). Dobbin discusses the outdated role of culture in organizations. "New Institutionalists" explored the significance of culture in the modern organization (Dobbin 117). However, the rationalist worldview counters the use of cultural values in organizations, stating, "transcendental economic laws exist, that existing organizational structures must be functional under the parameters of those laws, [and] that the environment will eliminate organizations that adopt non-efficient solutions" (Dobbin 138). These laws govern the modern organizations and lead them in the direction that will maximize profits efficiently. Thus, the modernity of organizations is to generate maximum profit, through the uses of mass media, technological innovations, and social innovations in order to effectively allocate resources for the betterment of the global economy.

### 9.6 Classical perspective

The classical perspective emerges from the Industrial Revolution and centers on theories of efficiency. There are two subtopics under the classical perspective: the scientific management and bureaucracy theory.

**Efficiency and teleological arguments in Weberian bureaucracy**

Max Weber believed that an ideal bureaucracy consists of six specific characteristics: hierarchy of authority, impersonality, written rules of conduct, promotion based on achievement, specialized division of labor, and efficiency.[14] This ultimate characteristic of Weberian bureaucracy, which states that bureaucracies are very efficient, is controversial and by no means accepted by all sociologists. There are certainly both positive and negative consequences to bureaucracy, and strong arguments for both the efficiency and inefficiency of bureaucracies.

While Max Weber's work was published in the late 1800s and early 1900s, before his death in 1920, his work is still referenced today in the field of sociology. Weber's theory of bureaucracy claims that it is extremely efficient, and even goes as far as to claim that bureaucracy is the most efficient form of organization.Weber claimed that bureaucracies are necessary to ensure the continued functioning of society, which has become drastically more modern and complex in the past century. Furthermore, he claimed that without the structured organization of bureaucracy, our complex society would be much worse off, due to the fact that society would act in an inefficient and wasteful way. He saw bureaucracies as organizations driven towards certain goals, which they could carry out efficiently. In addition, within an organization that operates under bureaucratic standards, the members will be better off due to the heavy regulation and detailed structure. Not only does bureaucracy make it much more difficult for arbitrary and unfair personal favors to be carried out, it also means that promotions and hiring will generally be done completely by merit.

Weber most definitely saw bureaucracies as goal-driven, efficient organizations, but one must not come to the quick and incorrect conclusion that he saw no downfalls to bureaucracy. He recognized that there are constraints within the bureaucratic system. First of all, he realized that bureaucracies were ruled by very

few people with very large amounts of unregulated power. This tends to lead to a situation of oligarchy, whereby a limited number of officials become the political and economic power. Furthermore, Weber considered further bureaucratization to be an "inescapable fate," due to the fact that it is supposedly superior to and more efficient than other forms of organization. Weber's analysis of bureaucracies led him to believe that they are too inherently limiting to individual human freedom and he feared that people would begin to be too controlled by bureaucracies. His rationale comes from the knowledge that the strict methods of administration and legitimate forms of authority associated with bureaucracy act to eliminate human freedom.

Regardless of whether or not bureaucracies should be considered positively efficient or too efficient to the extent that they become negative, Weberian bureaucracy tends to offer a teleological argument. A theory, in this case bureaucracy, is considered to be teleological if it involves aiming at specific goals. Weber claimed that bureaucracies are goal-oriented organizations, which use their efficiency and rational principles to reach their goals. A teleological analysis of businesses leads to the inclusion of all involved stakeholders in decision-making. The teleological view of Weberian bureaucracy postulates that all actors in an organization have various ends or goals, and attempt to find the most efficient way to achieve these goals.

## 9.7 Scientific Management

The Scientific Management theory was introduced by Frederick Winslow Taylor to encourage production efficiency and productivity. Taylor argues that inefficiencies could be controlled through managing production as a science. Taylor defines scientific management as "concerned with knowing exactly what you want men to do and then see in that they do it in the best and cheapest way."According to Taylor, scientific management affects both workers and employers, and stresses the control of the labor force by management.

### 9.7.1 Principles of Scientific Management

Taylor identifies four inherent principles of the scientific management theory.

1.The creation of a scientific method of measurement that replaces the "rule-of-thumb" method

2.Emphasis placed on the training of workers by management

3.Co-operation between manager and workers to ensure the principles are being met

4.Equal Division of labour between managers and workers

### 9.7.2 Bureaucratic Theory

The scholar most closely associated with Bureaucratic theory is Max Weber. In Economy and Society, his seminal book published in 1922, Weber articulates the necessary conditions and descriptive features of bureaucracy. An organization governed under Weber's conception of bureaucracy is characterized by the presence of impersonal positions that are earned and not inherited, rule-governed decision-making, professionalism, chain of command, defined responsibility, and bounded authority.

Weber begins his discussion of bureaucracy by introducing the concept of 'jurisdictional areas': institutions governed by a specific set of rules or laws. In a 'jurisdictional area' regular activities are assigned as official duties, the authority to assign these duties is distributed through a set of rules, and duties are fulfilled continuously by qualified individuals. These elements make up a bureaucratic agency in the case of the state and a bureaucratic enterprise in the private economy.

There are several additional features that comprise a Weberian bureaucracy:

It is possible to find the utilization of hierarchical subordination in all bureaucratic structures. This means that higher-level offices supervise lower level offices.

In bureaucracies, personal possessions are kept separate from the monies of the agency or the enterprise.

People who work within a bureaucracy are usually trained in the appropriate field of specialization.

Bureaucratic officials are expected to contribute their full working capacity to the organization.

Positions within a bureaucratic organization must follow a specific set of general rules.

Weber argued that in bureaucracy, taking on a position or office signifies an assumption of a specific duty necessary for the organization. This conception is distinct from historical working relationships in which a worker served a specific ruler, not an institution.

The hierarchical nature of bureaucracies allows employees to demonstrate achieved social status When an office holder is elected instead of appointed, that person is no longer a purely bureaucratic figure. He derives his power 'from below' instead of 'from above.' When a high-ranking officer selects officials, they are more likely to be chosen for reasons related to the benefit of the superior than the competency of the new hire. When high-skilled employees are necessary for the bureaucracy and public opinion shapes decision-making, competent officers are more likely to be selected.

According to Weber, if 'tenure for life' is legally guaranteed, an office becomes perceived as less prestigious than a position that can be replaced at any time. If 'tenure for life' or a 'right to the office' develops, there is a decrease in career opportunities for ambitious new hires and overall technical efficiency becomes less guaranteed.

In a bureaucracy, salaries are provided to officials. The amount is determined on the basis of rank and helps to signify the desirability of a position. Bureaucratic positions also exist as part of stable career tracks that reward office-holders for seniority.

Weber argues that the development of a 'money economy' is the "normal precondition for the unchanged survival, if not the establishment, of pure bureaucratic administrations". Since bureaucracy requires sustained revenues from

taxation or private profits in order to be maintained, a money economy is the most rational way to ensure its continued existence.

Weber posits that officials in a bureaucracy have a property right to their office and attempts at exploitation by a superior means the abandonment of bureaucratic principles. He articulates that providing a status incentive to inferior officers helps them to maintain self-respect and fully participate in hierarchical frameworks Michel Crozier reexamined Weber's theory in 1964. He determined that bureaucracy is flawed because hierarchy causes officers to engage in selfish power struggles that damage the efficiency of the organization.

### 9.7.3 Criticism of the classical perspective

Weber's theories were purposed to set a stage for other organizations to follow, and the characteristics are so ideal that they may be impossible for any actual organization to succeed. He wanted to come up with a set of guidelines that would favor both efficiency and, most importantly, conditions that would make the workers top priority. It was common for earlier theorists to distort Weber's views, and today, people still make the same mistakes as they did when Weber's views first came into play. He has always been critiqued for the branches of his ideas that don't work in reality, but the point of his theory was not to actually create an organization, but to create an ideal model for other organizations to follow.

One big misconception that people have had in the past is a question of Weber's morality due to their oversimplification of his characteristics of a pure bureaucracy. "There is dangerous risk of oversimplification in making Weber seem cold and heartless to such a degree that an efficiently-run Nazi death camp might appear admirable" (Bureaucracy Theory). In reality, Weber believed that by using human logic in his system, we could achieve improvement of human condition in various workplaces. Complexity in an organization yields the highest success, therefore simplifying it leads to the illusions of over-authority and intense hierarchical power that are inaccurate of Weber's beliefs.

Another critique of Weber's theory is the argument of efficiency. Highest efficiency, in theory, can be attained through pure work with no regard for the workers (for example, long hours with little pay), which is why oversimplification can be dangerous. If we were to take one characteristic focusing on efficiency, it would seem like Weber is promoting unhealthy work conditions, when in fact, he wanted the complete opposite. Put all of them together, and we have the ideal organization, but since a pure bureaucracy is nearly impossible to obtain, efficiency takes the back seat in his beliefs. Though his theories include characteristics of a highly efficient organization, we must remember that these characteristics are only meant to set a model for other organizations to follow, and if all the other conditions are not perfect, the organization is not pure. Is it really a bad thing that Weber's priorities were for the people rather than the company itself?

With this said, the characteristics of Weber's theory have to all be perfect for a bureaucracy to function at its highest potential. "Think of the concept as a bureau or desk with drawers in it, which seems to call out to you, demanding that everything must fit in its place" (Bureaucracy Theory). If one object in the drawer does not fit properly, the entire drawer becomes untidy, which is exactly the case in Weber's theory; if one characteristic is not fulfilled the rest of them are unable to work in unison, leaving the organization performing below its full potential.

One characteristic that was meant to better workplace conditions was his rule that "Organization follows hierarchical principle -- subordinates follow orders or superiors, but have right of appeal (in contrast to more diffuse structure in traditional authority)" (Bureaucracy (Weber)). In other words, everyone in a company or any sort of work environment has the opportunity and right to disagree or to speak up if they are unhappy with something rather than not voice their opinion in fear of losing their job. Open communication is a very important part of Weber's ideal bureaucracy, and is practiced today. Because of the communication it may not be the most efficient, but Weber would argue that improved human conditions are more important than efficiency.

It is hard to critique Weber's theories strictly because of the fact that they are theories; they are nearly impossible to perform in real life, therefore how can we know if they work or not? They are merely a set of guidelines that make up bureaucracy, which today many believe is the best way to run organizations in all aspects.

### 9.7.4 Neoclassical perspective

The Neoclassical perspective began with the Hawthorne studies in the 1920s. This approach gave emphasis to "affective and socio-psychological aspects of human behaviours in organizations." The human relations movement was a movement which had the primary concerns of concentrating on topics such as morale, leadership, and mainly factors that aid in the cooperation in Organizational behavior.

### 9.7.4 Hawthorne study

A number of sociologists and psychologists made major contributions to the study of the neoclassical perspective, which is also known as the human relations school of thought. Elton Mayo and his colleagues were the most important contributors to this study because of their famous Hawthorne study from the "Hawthorne plant of the Western Electric Company between 1927 and 1932."

The Hawthorne study suggested that employees have social and psychological needs along with economic needs in order to be motivated to complete their assigned tasks. This theory of management was a product of the strong opposition against "the Scientific and universal management process theory of Taylor and Fayol." This theory was a response to the way employees were treated in companies and how they were deprived of their needs and ambitions.

In November 1924, a team of researcher – professors from the renowned Harvard Business school of USA began investigating into the human aspects of work and working conditions at the Hawthorne plant of Western Electric Company, Chicago. The company was producing bells and other electric equipments for the telephone

industry. Prominent Professors included in the research team were Elton Mayo (Psychologist), Roethlisberger and Whilehead (Sociologist), and William Dickson (Company representative). The team conducted four separate experimental and behavioural studies over a seven-year period. These were:

1.'Illumination Experiments (1924–27) to find out the effect of illumination on worker's productivity.'

2.'Relay Assembly Test Room experiment (1927–28) to find out the effect of changes in number of work hour and related working condition on worker productivity.'

3.'Experiment in interviewing Working : In 1928, a number of researchers went directly to workers, kept the variables of previous experiment aside, and talked about what was, in their opinion, important to them. Around 20,000 workers were interviewed over a period of two years. The interviews enabled the researchers to discover a rich and intriguing world that previously remained undiscovered and unexamined within the Hawthorne studies undertaken so far. The discovery of the informal organisation and its relationship to the formal organisation was the landmark of experiments in interviewing workers. These experiment led to a richer understanding of the social, interpersonal dynamics of people at work.'

4.'Bank wiring Room Experiments (1931–32) to find out social system of an organisation.'

### 9.7.5 Results from the Hawthorne studies

The Hawthorne studies helped conclude that "a human/social element operated in the workplace and that productivity increases were as much an outgrowth of group dynamics as of managerial demands and physical factors." The Hawthorne studies also concluded that although financial motives were important, social factors are just as important in defining the worker-productivity.

Hawthorne Effect was the improvement of productivity between the employees, it was characterized by:

The satisfactory interrelationships between the coworkers

It classifies personnel as social beings and proposes that sense of belonging in the workplace is important to increase productivity levels in the workforce.

An effective management understood the way people interacted and behaved within the group.

The management attempts to improve the interpersonal skills through motivations, leading, communication and counseling.

This study encourages managers to acquire minimal knowledge of behavioral sciences to be able to understand and improve the interactions between employees

### 9.7.6 Criticism of the Hawthorne study

Critics believed that Mayo gave a lot of importance to the social side of the study rather than addressing the needs of an organization. Also, they believed that the study takes advantage of employees because it influences their emotions by making it seem as if they are satisfied and content, however it is merely a tool that is being used to further advance the productivity of the organization.

### 9.8 Environmental Perspective

### 9.8.1 Contingency Theory

The Contingency Theory is a class of the behavioral theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. An organizational, leadership, or decision making style that is effective in some situations, may not be successful in other situations. The optimal organization, leadership, or decision making style depends upon various internal and external constraints (factors).

### 9.8.2 Contingency Theory factors

-Some examples of such constraints (factors) include:

-The size of the organization

-How the firm adapts itself to its environment

-Differences among resources and operations activities

# 1. Contingency on the Organization

In the Contingency Theory on the Organization, it states that there is no universal or one best way to manage an organization. Secondly, the organizational design and its subsystems must "fit" with the environment and lastly, effective organizations must not only have a proper "fit" with the environment, but also between its subsystems.

# 2. Contingency Theory of Leadership

In the Contingency Theory of Leadership, the success of the leader is a function of various factors in the form of subordinate, task, and/ or group variables. The following theories stress using different styles of leadership appropriate to the needs created by different organizational situations. Some of these theories are:

The Contingency theory: The contingency model theory, developed by Fred Fiedler, explains that group performance is a result of interaction between the style of the leader and the characteristics of the environment in which the leader works.

The Hersey–Blanchard situational theory: This theory is an extension of Blake and Mouton's Managerial Grid and Reddin's 3-D Management style theory. This model expanded the notion of relationship and task dimensions to leadership, and readiness dimension.

# 3. Contingency Theory of Decision-Making

The effectiveness of a decision procedure depends upon a number of aspects of the situation:

The importance of the decision quality and acceptance.

The amount of relevant information possessed by the leader and subordinates.

The amount of disagreement among subordinates with respect to their alternatives.

**Criticism of the Contingency theory**

It has been argued that the contingency theory implies that a leader switch is the only method to correct any problems facing leadership styles in certain organizational structures. In addition, the contingency model itself has been questioned in its credibility.