

The Changing Tendencies of Economic Organizations, where are the Borders?

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SUMMARY

The economic competition forces the participants to a continuous adaptation and initiation.

A significant field of the subject is the organizational innovation that is to harmonize the structure, the form and the content.

In this paper we make an attempt to summarise the main changing dimensions and tendencies, which could be perceived based on the last 8-10 years.

Arranging these we can define different subcategories concerned with the structure, the process, the effects and the world of values.

We give a detailed enlargement on the topic of outsourcing and diversity mainstreaming.

ORGANIZATIONAL CHANGES

When the transaction costs theory regarding the corporate theories and the network theory were made dominant by the globalization, the divisional and multi-divisional forms became remarkable in global dimensions concerning the organizational forms. (It is especially true for the economic Triad.)

In the mid-nineties 75 % of the biggest French companies, 76 % of German companies in the same category, and 89 % of British companies were organized divisionally.

Behind the apparent unity innovative organizational forms also appear in large and medium companies: network, cell form, “allied organization”, the post-modern and flexible company, the individualized corporation, etc.

The connection between organizational performance and innovation obviously strengthens the fact that competitiveness is an innovational fight today, where inflexible and bureaucratic organizations cannot be successful.

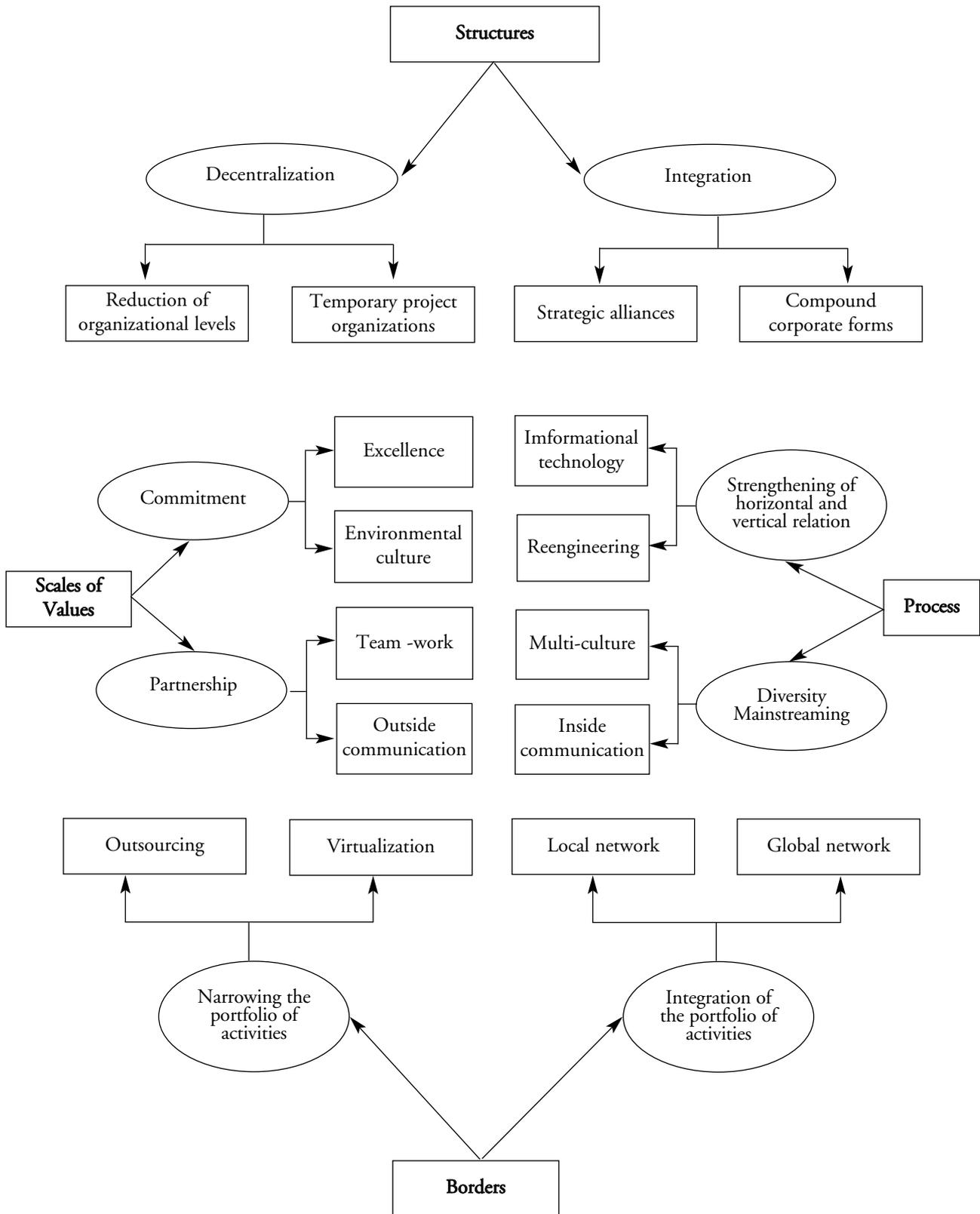
But why have organizations got into this transitive position? As in case of all such questions, this symptom cannot be originated from one reason. The appearance of innovative organizational forms was forced by economic, technological, informational and political factors. In the globalizing economy the strengthening international competition forces companies to think and act at global and local levels. Compulsion for efficiency motivates the economic parties to reduce costs, to concentrate the

resources regionally and to simplify the organizations. The networking and the analysis of transactions costs resulted first in up-valuation of skills (competencies, mainly basic competencies).

Among competencies the knowledge and the value and effects on competitiveness of innovational ability became more dominant. Transnational companies have gradually realized that relief of technical decentralization and formalized network control must be reached by stronger participation of regions and local units and mobilization of their innovational abilities.

The shortening of technological, product, etc. innovational cycle periods also forces the inflexible large organizations to establish more reagent and initiative organizations.

Informational and communicational technologies make possible the establishing and use of networks and additionally such a level of hierarchic control and quality that was unimaginable before. Deregulation also gives an effective impulse for organizational culture and the change of people. These all contribute to develop a new vocabulary regarding the way of thinking and activity of organizational innovation. A new tendency is arising; the noun “organization” is rarely used; instead the verb “to organize” is applied. The realities of continuous innovation are demonstrated by this way. This usage of language makes it more clear that organization is a tool of strategic development. Today it is a respectable fact that organization and strategic planning are complementary activities- even we can go further and say that organizational form becomes



Picture 1
Dimensions of changes

a synonym for corporate strategy. Nowadays the literature of new organizational forms usually overshadows the organization and design, while it emphasizes the strategy, processes, systems, limits and people.

The impulses for renewing organizational forms are even obvious, but the answers for these given by companies are not so. Certain authors have escaped to the use of ideal types. This way we can get to know the “N” form, cell form, limitless and individualized corporation. These ideal types of researchers are based on case studies about special organizations and non-typical sectors and regions. The changes presented by them are not simply the changes of form or structure, but the dynamic adjustment of organizational forms, processes, systems, limits, values and attitudes, because globalization also means the integration of different cultural elements.

DIMENSIONS OF ORGANIZATIONAL CHANGES

The company structure and organization giving a frame for and itself the competitiveness have always been an important question for the members of competitive sector and researchers. As mentioned above the effect of globalization has strengthened the importance of innovation and multi-cultural factors. According to this, the changes of organizations able for actions can be presented and perceived by the displacement happening in four main sectors (dimensions):

- > changing organizational structure
- > changing scales of values
- > changing processes
- > changing borders.

The dimensions of changes are shown in Picture 1.

Changing structures

The changing of organizations has two directions. Decentralization in field of direct, operative management because

- > costs of too many organizational levels and the middle management connected with it are high,
- > the way of decision-making is slow because of the inflexibility of multi-stage informational and decisional chain.

The effort to decrease the number of hierarchic levels is a definitely recognizable tendency. (Lean management, flat organizations, lean organizations). Beside decentralization, the horizontal communication and project-work (hierarchy-free form of connection of inside and outside experts) were needed to strengthen.

Integration, which represents the strength of cooperation between the organizations. Globalization is also a symptom with capital-concentration. According to this long-term allied networks come into being, which could lead to owner and organizational integration. The range is fairly wide; it extends from project-organizations through different contracted cooperation to compound corporate integration.

Changing values

The managerial and owner’s commitment and partnership are the two most important characteristics of stakeholder theory, which could rearrange the relationship between the members of economy and society in the future.

- > The scales of value and openness for environmental culture of excellence results in relieving of exclusiveness of profit-maximizing behavior. According to this, changes must be done regarding product, technology, social and civil members, and sensitivity must be shown in direction of global problems. The introduction of models and awards of excellence make organizations move forward to changes following these scales of values.
- > Partnership means humanization of internal and external relations, and application of techniques and operational modes showing assets and cultural elements of management based on participation.
- > External relations and the change of intercourse-holding forms mean the acceptance of PR, outside communication, front and back organizations and process-based operation.

Changing processes

The process-oriented operational mode departs from and moderates the functional insulation. The IT gives a possibility for the integration of processes. The intensive exchange of information unites the different parts of organization. This information is basically horizontal concerning its direction of movement, which helps the utilization of synergies of the business world. The information-flows also move outward and cover the suppliers and consumers by the electronic data-interchange (EDI) and other initiations. The establishment of information-intensive organizations strengthens further the innovation process based on participation, multi-centrism and flexibility.

The “hard” infrastructure of information-technology must be supported by “softer” investments into human resources. New managing methods and new types of managers are needed for the new strategies and structures. These new methods of human resource management have three general dimensions in the new organization model: the horizontal networking, the techniques of conveying of organizational knowledge, and multi-cultural integration that is Diversity Mainstreaming, which integrates the other two making them more complete. (it will be detailed later).

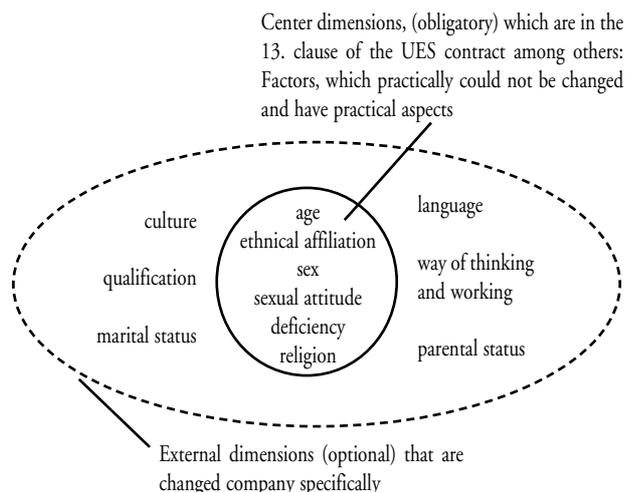
Changing borders

Big size leads to strongly hierarchic organizations and the wide scope of activities extinguishes horizontal relations. The reduction of levels and more interactive processes will be followed probably by a decrease of sizes and concentration on closer activities. This correlation is further strengthened by changing structures and processes, which forces the companies to concentrate on key competencies redrawing their borders in order to increase the real competitive advantages.

The hierarchy and big size can hinder strategic flexibility needed for fight in a strong competition. The effect of size-change is strengthened usually by decreasing of the scope of activities and leaving strategic conglomerations, by which the economic members can concentrate on fields advantageous for them. Besides, on certain product-markets the organizations place out their activities with lower value or less strategic importance of the chain of value. When the better skills or sources are outside of the company, strategic alliances are applied increasingly by companies in order to complement or even to strengthen their own competencies. So, companies draw their borders in closer scope of activities even by forming partner relationships, outsourcing or reducing the scope of activity, while competencies are applied by systems of alliances and the missing competencies are provided by alliances. We will discuss the main theoretical questions of outsourcing in the next chapter.

DIVERSITY MAINSTREAMING

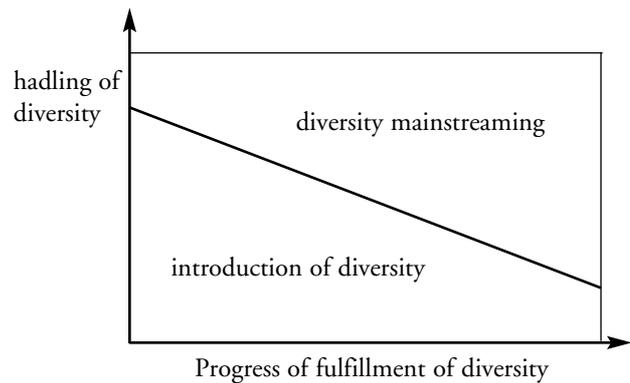
Diversity is the main, and hopefully anti-procrapsis and triumphal tendency of European integration. It is obvious, that the cultural and HRM dimensions of the question are important. The dimensions of diversity are shown on Picture 2. The English word “diversity” indicates the symptom what we call “multiplicity”: the fact that people are different in many characteristics. Managing diversity is a tool, which helps to intensify the efficiency of companies regarding the expedient evaluation and active use of differences. Diversity has acclimatized as a guide in the global company management. On account of this, individuality is considered at all activities and diversity is utilized in a proactive way, as a factor of success.



Picture 2
Diversity-dimensions

If diversity is regarded as a new basic characteristic of organizations, then two parallel solutions for accomplishment are given:

- > Cultural changes are started by the introduction of diversity as a new conception into an organization, which will last for more years. The introduction of a new concept and a paradigm concerning the already existing concepts will happen.
- > The theory of diversity is integrated into the existing structures, processes and contents of the organization during the second method. The business activity and the company system are set for durable use of diversity. This is called Diversity Mainstreaming. The field of human resources and company communication get a special importance here.
- > The two methods cover each other, first the introductory later the integrative parts become dominant. (Picture 3.)



Picture 3
Fulfillment of diversity

Main fields of diversity mainstreaming:

- > supply of labor-force, external personnel marketing, search for labor, getting into relationships with labors, selection, and putting on work;
- > evaluation and support of workers, motivation, payment, and systems of performance evaluation
- > education, training, and personnel-development,
- > employees relations, work/life balance.

The introduction of diversity and diversity mainstreaming treat and use possibilities derived from differences. For this it is necessary to integrate the personnel functions, connect the HRM elements, and change the mono-culture into the direction of modern multi-cultural organization.

The most important advantages:

External advantages:

- > All existing labor-market potentials are exhausted by a differentiated recruiting of labor; the image of employers and the quality of applicants get better.
- > More market-segments are occupied, these can be more affected and the customers could be made more satisfied by a more open marketing and a more differentiated communication.
- > The image and judgment of companies get better by a responsible and ethical act.
- > Markets take branding by diversity that is by replaceable goods, services and job-supply.
- > According to experiences, the rate of exchange of stocks of companies managed in a modern way and having a social attitude rises above the average.

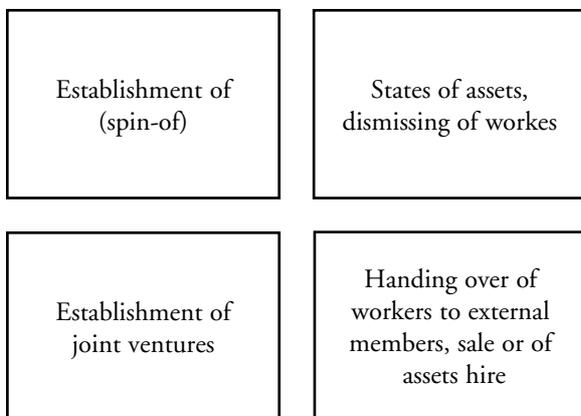
Internal advantages:

- > The existing potential of all workers improves in quality and becomes fully utilized in quantity. (increase of individual productivity)
- > The appreciation of individuality increases the satisfaction and decreases the number of absences from work and fluctuation.
- > Cooperation improves (better productivity of teams, creativity, problem-solving ability, innovation force). The efficiency of organizations increases regarding changes, complex structures, and processes extending to the most areas, etc.
- > The cooperation with other companies (cultures) gets easier.

OUTSOURCING

An economic partnership wants to concentrate first on its basic activities and later on its basic competencies during the analysis of the chain of values. According to this the other activities are cut back and outsourced in order to keep competitiveness and focus. So, outsourcing is the action, when a part of or the whole activity is handed over to an external entrepreneur by the company, cutting back or dissolving such capacities at the same time.

It is evident, if we are approaching to this initial definition in a more general way, in case of an activity regarding Possibilities for outsourcing are shown on Picture 4.



Picture 4
Possibilities for outsourcing

It is important to summarize the possible aims and impulsions after giving the general definition of outsourcing. According to the before mentioned the most important initiating factors are:

- > Selection of cost-effective solutions based on the examination of transactions costs. (make or buy) It is practical to stop the production and resource-background of those that would be cheaper to buy.
- > Maximal utilization of internal resources. The resolution of tight cross-sections can be made by participation of external cooperation in the first step, and then the resource-development can be replaced by outsourcing because of lack of sources.

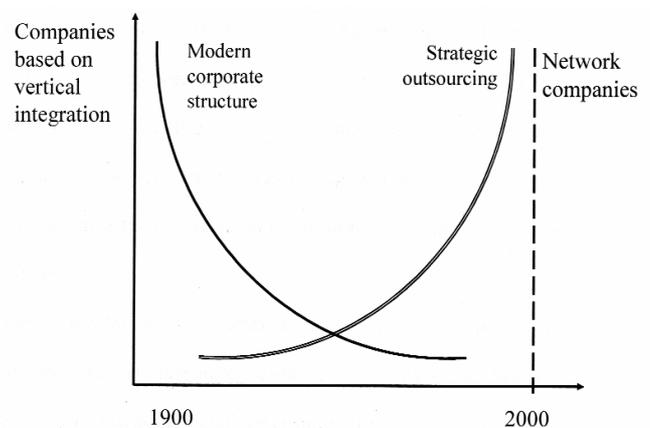
- > Homogenization of chain of values, which is not only a cost-effective aspect any more, but it also means the elimination of qualitative and knowledgeable imperfections.
- > The supplementation of lack of important competencies is the extension of the previous case for production of a complete technological phase or subassemblies.
- > Following fashion -as in case of apply of all organizational actions and systems- is derived from preferring the exteriority elements of the modern tendency.
- > Concentration on competencies and important elements of resources and skills.

According to this we can see that outsourcing establishes strategic alliances in most cases. (Not simply outsourcing) It results from this that outsourcing

- > assumes long-term business partnership,
- > advantageous economic relationship for both parties, synergies,
- > and synchronization of motivation
- > and based on professional and confidential theory
- > and on accepted cultural and business attitude.

It becomes more clear reviewing the change of driving force of company development. (Picture 5.)

Modern companies were characterized by vertical integration at the beginning of 20th century. By the end of the last century decomposition became dominant.



Picture 5
Development of companies from vertical integration toward network like company-development

So outsourcing is the tool of clearing from the basic competencies of value-creating processes, which results networking, disintegration and integration as well. Sometimes it can reach such a level that some companies outsource all of their functions- with help of network techniques- reducing their own competencies only on coordination and projecting.

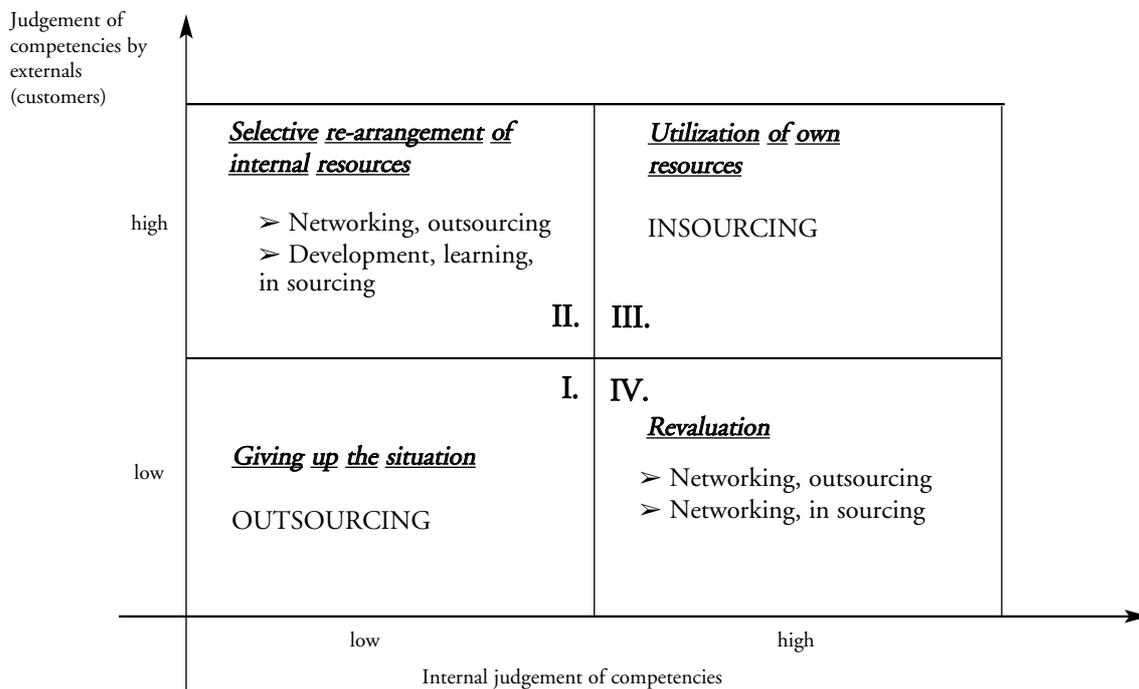
The starting point of competence-oriented managerial decisions is the sum of existing productive resources of the companies. They must adjust not to the regular financial concepts, but to the possibilities of keeping and developing abilities of knowledge. The preconditions of competitiveness are the coordination of resources of the

basic activity, the synchronization of these with market requirements, and for long-term the ability for better and faster performance than the competitors'. The activity must be done better than it can be done by the competitors. Attempts must be made to minimize the differences between the basic activity and the final product because the company could be easily delivered to the suppliers.

Competence connected with the basic activity consists of both touchable and intangible resources. It has therefore a complex and hardly traceable structure, which provides a defense against imitation at the same time. The most important fact is that basic competence is not the result of several functions. Competitive advantages are not provided by the functional performance-differences. The potential of business successfulness does not comprise separate or

segregable elements of activity. The outsourcing of enforced interruptions and tasks based on these encumber the development of constructions being in accord with the most modern technologies.

Competence-orientation concentrates the attention of the company on the customer. When decisions are made on outsourcing, competition-orientation is often confused with customer-orientation by endeavoring mainly on ensuring the advantage over the competitors. The value of company resources depends on not their performance-potentials but the effects of product upon the customers. The duty of value-improvement is that management perceives what kind of skills and technologies the company has and to what extent these contribute to the satisfaction of customer-needs. (Picture 6)



Picture 6

Judgement of in- and outsourcing based on the internal and external judgement of competencies

This relevance makes it possible for the management to concentrate their efforts on the development of those fields which really contribute to the satisfaction of customers.

The possible outsourcing strategies are the followings:

- 1.) The handing out of duties and resources are reasonable here since the own skills and also the notoriety of those are low and totally non-competitive zones.
- 2.) Selective development, since the external judgment is good, it is the potential field of competitiveness but the own resources and skills are not properly developed. The organizational learning, inner networking and knowledge-transmission techniques get big importance at searching for the solution. If we can not increase the strength of inner

competences because of a reason then outsourcing is needed.

3.) This field indicates the world of real competitiveness. The upholding and strengthening of further positions are included here. The main duty of management is to keep the company in this field or to direct it here.

4.) The important is to make their own competences accepted through strengthening of marketing and network relations. In case if it does not bring any result, the networking based outsourcing can be the solution.

The advantages and disadvantages of outsourcing are summarized in table 2.

Table 2
The potential advantages/disadvantages
of outsourcing for the user

<u>Potential advantages:</u>	<u>Potential disadvantages</u>
<ul style="list-style-type: none">– Cash for materials (assets)– Lower costs– Higher flexibility– Getting and keeping of qualified staff is a smaller problem– Reaching bigger technological knowledge and resources– Clearer management and administrative requirements<ul style="list-style-type: none">➢ clear contracts➢ considerable costs– Better concentration on main activities	<ul style="list-style-type: none">– Possibility of losing control from meaning of service– High costs of conversion for outsourcing– Decrease of learning abilities– Safety losses – the main competences can decline– Moving from assuring the infrastructure towards managing the relations– Restrictions regarding competitive products and services– Change of conditions or strategic focus can make the relation outdated– The preconditions can lose their validity fast.

Zusammenfassung

Összefoglaló

A gazdasági szereplőket a piaci verseny folyamatos kezdeményezésre és adaptációra kényszeríti. Ennek megfelelően a kutatók érdeklődési fókuszában az innovatív szervezetek struktúrájának működési módjának vizsgálata áll. Ebben a cikkben összefoglaljuk -az elmúlt 8-10 év bázisára építve- a változások főbb dimenzióit és az egyértelműbb tendenciákat. Az elmozdulások négy fő kategóriába sorolhatók: a szervezeti struktúra, a folyamatok, az értékrendek és a szervezeti hatások változásai. A rendszerezés lényegi elemeinek bemutatása után részletesebben az outsourcing és az ún. diversity mainstreaming témaköreit tekintjük át.