

# From One to Two – A Possible Model of Organizational Development and Development of Organizational Capabilities

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## SUMMARY

*The business management of most successful companies is a result of the coordinated operation of the processes, organizational structure, supporting systems and employees which make up the organizational capabilities of the company. Within the business processes, this includes development and continuous improvement of key internal rules and regulations, the division of spheres of power and responsibility, the requirements and the operation of fundamental checkpoints for organizational units, the provision of the most important technical conditions, improvement of human resource knowledge and skills and using all the above to promote strategic objectives in which competence development, performance management systems and knowledge-sharing techniques play key roles.*

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## INTRODUCTION

The concept of organizational development is undergoing a significant transformation these days; the fact that the expectations of companies concerning organizational development have increased carries substantial importance. The emphasis is increasingly shifting towards the implementation of changes that support the achievement of strategic objectives, providing the greatest added value within a reasonable period of time. From a financial point of view, the attention is shifting towards tangible effectiveness and promptness. The leading Hungarian and international companies

possess appropriately detailed strategies that show elements in their hierarchy of objectives that focus on financial effectiveness, internal organizational standards, employee competencies and customer satisfaction. As a foundation for such strategies, enterprises assess regularly, on the one hand, their own performance to date, and on the other hand, they compare themselves with competitors taking into account the market environment. It is important that the answers exist not only at the organizational level but also provide guidance for the staff in clarifying the requirements and planning individual contributions.

The elements determining organizational capability are illustrated in Figure 1.



Figure 1. Components of organizational capability (author's own work)

Based on these, it is apparent that the task to create an organization that meets the expectations listed above is very complex. Most managers can sense when an organization under their control does not work well, but only few of them know how to improve the situation. A radical reorganization has a rather intimidating effect. On the one hand, it is accompanied by a continuous balancing of advantages and disadvantages, negotiations and an infinite series of creating different versions. On the other hand, it has a divisive effect and often leads to personal conflicts and power games. Thus, when organization restructuring problems arise, managers often focus on the most important weaknesses while the entire structure is rendered more 'shapeless' and less strategic in nature.

Typical factors restricting the adequacy of organizational structure are as follows:

- > organizational structures rarely result from systematic, methodical planning;
- > the haphazard nature of structures is a constant source of frustration for top-level managers;
- > clashes between different business areas about cooperation and sharing information with each other result in mutual limitations;
- > structures are overly complex;
- > the operation is shaped to a much greater extent by the current policy than by control principles;
- > strategic initiatives are blocked due to the fragmentation of responsibilities;
- > promising possibilities are lost due to a lack of managerial attention.

Due to these factors, environmental changes force companies and institutions to review and change their strategies and structures at ever-shortening intervals. The management often does not have reliable instruments and methodological knowledge for complex organizational restructuring, for systematic, regular mapping and logical structuring of the company and – within this – areas (organizational units) in a critical situation. Therefore, decisions are often based on intuition and individual ideas.

The structured transformation of a possible model of organization is presented below. In my opinion, the model carries the possibility of enlargement, and is also suitable for supporting capability development. In order to differentiate the development of a model, a typology of work organizations is elaborated, which allows for specifying and incorporating new areas of investigation (Table 1). In defining organizational characteristics, considerations of empirical studies were also taken into account.

In order to refine our way of thinking, the specific approaches of Morgan and Klein (1986, 1998; and, 2001) have been improved and metaphors are used to present the essence of an organization (Figure 2). When characterizing an organization, metaphors, on the one

hand, can expand our thinking, providing a deeper understanding and a new approach, and on the other hand, they may be seen as one-sided and bothering. The significance of the presentation is that the metaphors of an organization are powerful tools in understanding individual elements of a complex phenomenon, but we get closer to the phenomenon as a whole only if we are capable of visualising these elements alternately or simultaneously and are able to break away from one single approach. In my opinion, in the development of organizational capabilities the departure from conventional thinking is well supported by a metaphorical approach.

With the fierce worldwide market competition, companies tend to feel and recognize that within a very short time they may lose their 'traditional' competitive advantage resulting from the development and excellent quality of their services, products and technologies, etc. That is how they become aware that a more durable competitive advantage can be acquired through competencies. The corporate or institutional level competencies make the company competitive only if it is able to present value-producing personal and group competencies and skills which, due to their uniqueness and perfection, cannot be reproduced by its competitors.

Today, due to the economic, political, technological and information globalization, the primary interests not only of large, but also of small and medium-sized enterprises include increasing their efficiency, reducing costs, and improving resource concentration and allocation, which can be best achieved by an improvement of competencies and capabilities.

In my opinion, capability development does not differ in its logic from the classical process of organizational development; however, we can find common elements and completely different, novel approaches and different emphases within the contents of the individual stages. The differences in the contents of the two processes – organizational development and capability improvement – are presented in Figure 3 as part of the classical process model of organizational development. Within the process model, differentiated presentation of the differences can be performed in the stages of identification of problem areas, mapping of characteristics of the qualifying system, and selection of organization analysis methods.

In the identification of problem areas, the organization developing elements are complemented by aspects describing the evaluation of capability improvement, which ensures a new approach in thinking. When recording the initial situation, the areas determining organizational capabilities are presented. One of the critical elements of successfully carrying out organizational development and capability improvement is the successful performance of the analysis.

*Table 1*  
*Typology of work organizations*

Type of organizational structure	Traditional			Divisional	Two- and multidimensional		Dual			Project	Network
	Linear	Staff Organisation	Functional		Matrix	Tensor	Strategic Business Unit	Team	Project		
Conditions for its development and effective operation	– Stable market, scientific, technical and technological environment, – Relatively transparent production/service activities, not too wide product/service structure			– Wide product range, heterogeneous product or service structure – Possibility to develop product families – Relatively dynamic environment	– Dynamic, heterogeneous external environment – Complex tasks within the organization – Division of labour based on different principles – Advanced communication skills of organization members	– Heterogeneous environment within enterprise – Diverse product and production structure – Secondary structure built on the primary structure			– Heterogeneous environment within enterprise – Diverse product and production/service structure	Willingness to cooperate	
Type of subordination connections	Clear	Shared	Overlapping	Shared	Bidirectional subordination	Multidirectional subordination	Hierarchic levels partly overlapping			Multidirectional subordination	Built on voluntary membership
Formability of professional contacts	Encounters communication barriers	Coordination of strategic and operative levels	Negotiation difficulties in adjacent areas	Encounters communication barriers	Organized on the basis of professional relations						Fundamental driving force
Separability of routine and innovative activities	Fuzzy	Strongly separable	Concentrated on top management	Objective-oriented	Clearly separated		Integration based on development	Can be developed if objective-oriented			Members are well differentiated
Development of cross-sectional functions	Results in increase of centralization			Possible	Forms a center by establishing cross-sectional functions						
Reducibility of subordination steps	Results in increase of width fragmentation	-	Leads to concentration of functions	Possible if objective-oriented	Subordination levels are controlled by innovation chain		Partly or fully out of the subordination system (periodically)		Subordination levels are controlled by innovation chain	-	
Specialization possibility	Restricted			Possible if objective-oriented	Possible if objective-oriented		Can be developed if objective- and task-oriented			Essential operation element, determining goal	
Possibility of sharing spheres of power	– Centralized spheres of decision – Strict regulation	– Fitting the sphere of responsibilities	– Centralized spheres of decision – Strict regulation	– Decentralized decisions head office – division – Centralized decisions within division	– Dimension bound sphere intersections (overlapping regulation) – Centralization of decisions – Lower level formalization	– Double division of spheres → double hierarchy – Decentralization of strategic decisions		– Dimension bound sphere intersections – Lower level formalization	Double hierarchy based on contract		
Demand for coordination	– Instruction-type vertical coordination mechanism – Technocratic instruments	– Establishing connections between operative and strategic tasks – Technocratic and person-oriented instruments	– Channels built for vertical coordination mechanism – Technocratic instruments	– Application of technocratic instruments (controlling) – Choice of leader	– Complex horizontal and vertical coordination prevails – Person-oriented coordination instrument	– Application of technocratic and person-oriented instruments		– Complex horizontal and vertical coordination prevails – Person-oriented coordination instrument	Totally built on technocratic coordination		
Possibility of task-oriented flexible transformation	Restricted			Flexible overview provided according to needs	Flexible transformation possible according to needs						
Personnel placed within organization	Restricted by width and depth division			Determined by division size	Distributable proportionally to dimensions		Domination of primary structure		Optimal group size proportionally distributable between dimensions	Network size is flexibly	
Possibility of personnel rearrangement	Encounters structural barriers	Limited due to specialists	– Encounters formal barriers – Interpretability of dual solutions	Easy within division or between discontinued divisions	Flexible				Localized in time	Flexible	
Possibility of mobility	Professional and positional progress linked			Professional and positional progress linked						Unrestricted	
Possibility to include interest decentralization	Determination of interest parameters is difficult (cost orientation)			Mostly built on them						Possible to relate to network membership	
Lifespan					Bound to the period of time of performing task				Periodic	Built upon contract system	
Environmental orientation	Depends on top management	Depends on staff organization	Depends on functional specialists	Environmentally oriented dimensional management			Depends upon lifespan			Total	

author's own work

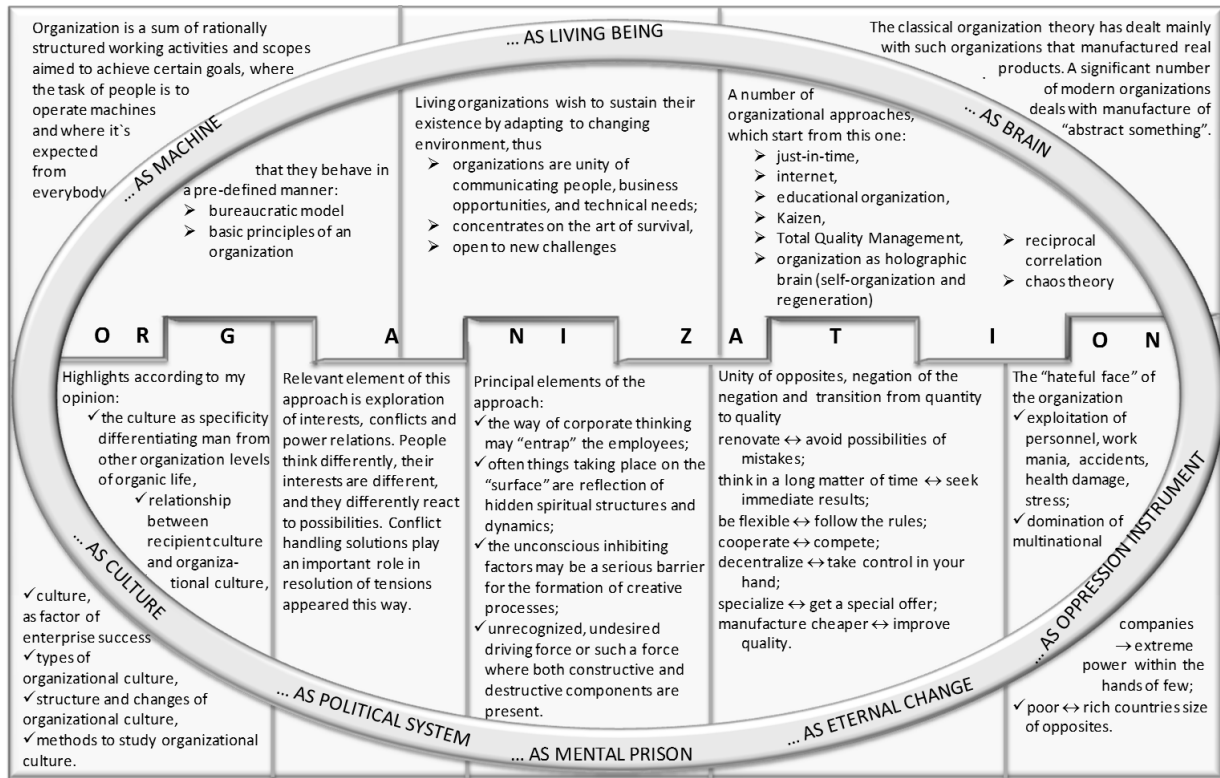


Figure 2. Metaphoric approach to an organization (author's own work based on the systematization by Klein (2001))

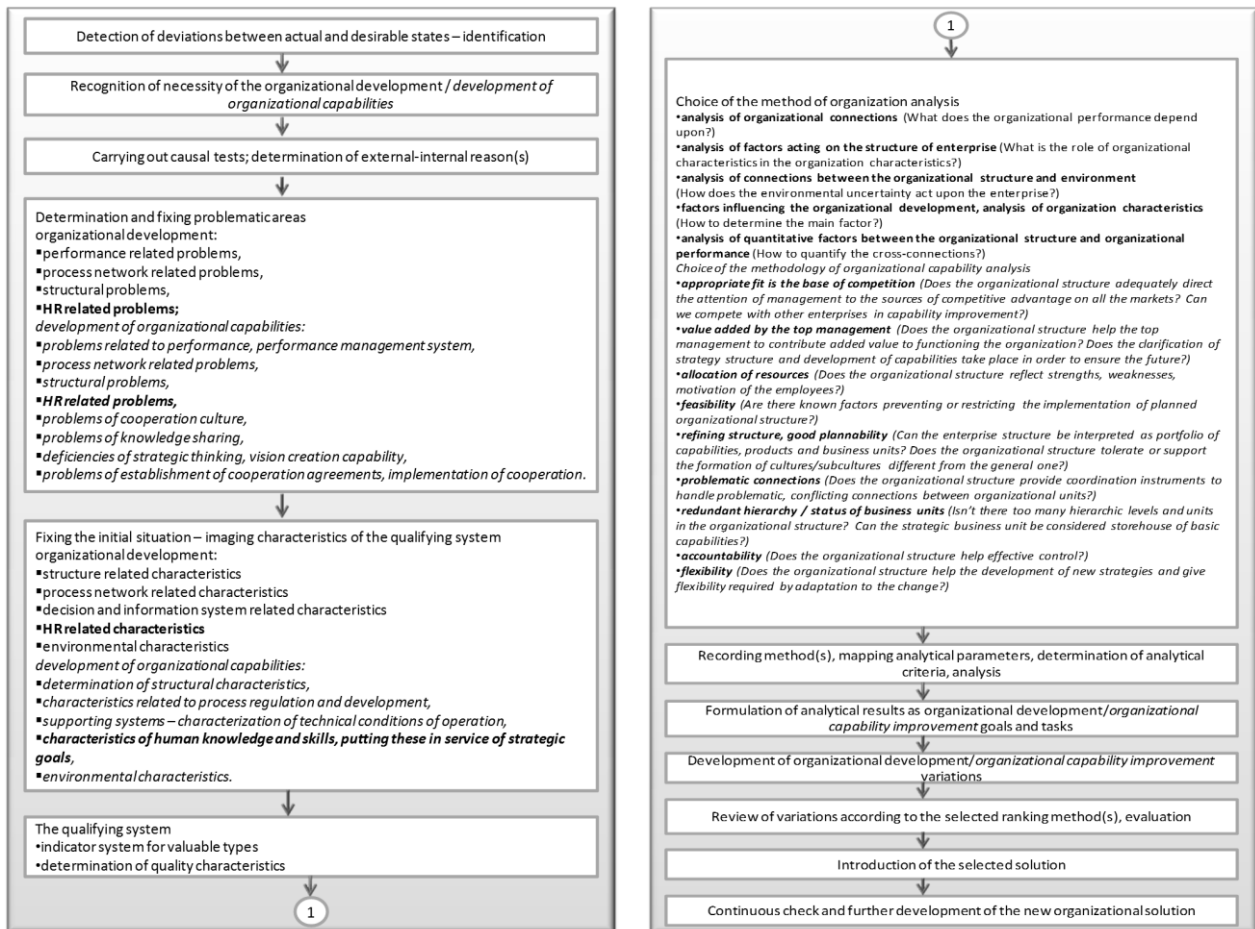


Figure 3. A classical model of organizational development – complemented by the development of organization capabilities (shown in italics) (author's own work)

What are the key features of the analysis? First of all, it should contain the designation of the boundaries of the situation study, that is an accurate definition of the subject, and then make a demarcation between the state and operation analyses. The actual structure of every organization – whether it has been created as a result of conscious or spontaneous organizational interventions – determines essentially its operation rules, effectiveness and limits. Their study and recognition is a prerequisite of any effective search for a solution. Accordingly, there exist state-dependent causes of failure, which depend on the level of organization of the subsystem/sub-capability examined. These error factors can be identified as a result of comparative measurement against recognizable effective organizational solutions in the given area. As for their nature, they can be classified into the category of corporate/institutional reserves. Thus state analyses concentrate on comparing the actual situation and the ‘ideal’ state. In addition, the operation of each subsystem/sub-capability is burdened by numerous detectable occasional or constant phenomena of failure.

The group of recurrent operation failures, which can be recognised at a glance in their superficial form of appearance, includes the problems and operation failures that may arise during daily work and originate from a breach of regulations and rules determining the operation mode of the system, and from breach of working practices. These operation failures belong to the category of loss. They can be studied by comparing the planned and actual operation modes.

Operation studies, through an evaluation of harmony and efficiency of the objective–task–tool procedure, provide information for determining the optimal tightness of control, for the transformation of the incentive and motivation system, for the elimination of temporary failures and limits, while it is possible to analyze whether the intention of the designer of the system failed due to occasional or structural barrier factors. The determination of the objectives and directions of the organization and capability analysis is followed by selecting the method of the organization/ capability analysis. A potential system for its criteria is presented in Table 2.

*Table 2  
Criterion system for selecting the method to analyse the organization and its capabilities*

Aspects	Interpretation domain / examples
Fundamental objective, determination of directions of organizational analysis	Organizational analysis – analysis of organizational connections, – analysis of factors acting on the organizational structure, – analysis of the relations between the organizational structure and its environment, – analysis of factors acting on organizational development and of organization characteristics – analysis of quantitative factors between organizational structure and organization efficiency, – analysis of strategy – structure – organization efficiency and environment. Analysis of organizational capabilities – appropriate match is the basis of competition, – value added by the top management, – allocation of resources, – feasibility, – good state of planning, – problematic connections, – redundant hierarchy, – accountability, – flexibility
Task size	complete organization / part of the organization / business branch / partial skills / personal skills
Demarcation of state and/or operation analyses	state / operation
Formal presentation of qualification system	quantitative and/or qualitative parameters
Mode of formation of evaluation parameter	– correlation of fulfilment indicators by criterion with maximum score, – function / cost ratio, – sum, ratio, preference and disqualification indicators, average, frequency values, – connection analysis, causal connections
Mode of evaluation	– sequential or interval scale – assortation graph – simulation – normative and diagnostic analysis
Condition of application	– hierarchic structure level – tests – textual aspects
Possible auxiliary method	NCM, BS, graph method, advantage-disadvantage analysis, questionnaires, PARETO analysis, Guilford type pair-wise comparison, RADAR, STEEPLE, VVI
Number of participants of the analysis	individual and/or group
Content elements of the qualification system	resources, centralization – decentralization, capabilities – results.

(author’s own work)

In composing Table 2, the individual classification of the methodologies (such as factor and cluster analysis, correlation and regression calculation, combination of multivariable mathematical-statistical methods, KIPA, CHECKLAND, simulation model, etc.) was neglected; instead, interpretation examples are specified according to their aspects. In general, the following can be stated about the methodologies:

- the methods meet the respective requirements in different ways;

- they offer the user a number of approaches, which facilitates matching the decision-making situation, makes the decision-making process more efficient, and promotes matching the interest and influence relationships originating from user roles as well as adapting to the users' ways of thinking and communication patterns;
- the effectiveness of each method for a given problem can be determined.

*Table 3*  
*Criterion system of selecting the methodology for ranking the variations of organisational development*

Aspects	Interpretation domain / examples
Task size	Random/limited from above/below depending upon the number of variations
Principle of sorting reference	Reference to one another, reference to the ideal, reference to the best, reference to the fastest
Recording the standpoints of those giving their opinions	<ul style="list-style-type: none"> <li>- determination of extent of contribution to the objective to be achieved,</li> <li>- determination of percentage of variations compared to the ideal,</li> <li>- based on actual values as compared with target,</li> <li>- qualification of variations according to scales containing different grades,</li> <li>- determining the minimum value of weighted divergence,</li> <li>- determination of opinion centres, quantification of tightness of opinion agreement,</li> <li>- analysis and evaluation of reliability of forecasts with the help of connection testing,</li> <li>- determining the optimal performance concerning all objectives with single or multiple value(s).</li> </ul>
Determining the dimensions of comparison	<ul style="list-style-type: none"> <li>- qualitative dimensions/effects,</li> <li>- quantitative dimensions/actual quantifiable values,</li> <li>- qualitative and quantitative dimensions.</li> </ul>
Determining the criteria expressing properties	<ul style="list-style-type: none"> <li>- with the help of an auxiliary method (BS, Delphy, ...),</li> <li>- collecting factors helping the implementation of objectives and logically linked to them,</li> <li>- determination of functions affecting the implementation of the fundamental function,</li> <li>- PARETO analysis</li> </ul>
Number of those giving opinions	person and/or group
Method of weighing criteria (presuming interpretation according to the criterion system)	<ul style="list-style-type: none"> <li>- direct estimation,</li> <li>- pair comparison,</li> <li>- determination of importance grades by criteria,</li> <li>- determination of expected values of weight and scatter by criteria,</li> <li>- semi-matrix procedure,</li> <li>- in case of n criterion, formation of 1/m relative weight,</li> <li>- with the help of a qualitative scale,</li> <li>- presentation on interval scale – inhibition percentage of performance of the basic complex function by worst performance of the given function.</li> </ul>
Measurement principle for ordering	<ul style="list-style-type: none"> <li>- uses the measured values of sequence scales                             <ul style="list-style-type: none"> <li>• Spearman-type rank correlation coefficient</li> </ul> </li> <li>- determination of preference sequence based on preference ratio,</li> <li>- placing evaluation factors on the interval scale                             <ul style="list-style-type: none"> <li>• consistence matrix,</li> <li>• relevance numbers,</li> <li>• relative importance coefficients,</li> <li>• determining the ratio of sum differences,</li> <li>• single and/or multiple evaluation,</li> <li>• using real inhibition factors of all functions,</li> <li>• usefulness functions;</li> </ul> </li> <li>- determination of distance values,</li> <li>- classification of variations into five categories (K-S one-sample significance test),</li> <li>- advantage-disadvantage comparison,</li> <li>- comparison of qualification results and requirements by criteria.</li> </ul>
Basis of measurement evaluation	<ul style="list-style-type: none"> <li>- weighted, complex formal evaluation,</li> <li>- with the ratio of disadvantage series,</li> <li>- using individual and aggregate preference tables,</li> <li>- using the rank correlation matrix,</li> <li>- as weighted sum using determined total relevance numbers,</li> <li>- as simple sum using determined absolute importance coefficients,</li> <li>- with the sum of simulated step variation values,</li> <li>- product of weighted individual values,</li> <li>- construction of weighted distance values,</li> <li>- using implementation factor (by subtracting real inhibition factor from 100),</li> <li>- by systematic application of rules,</li> <li>- choice by weighing advantages/disadvantages,</li> <li>- selection by filtering rule and threshold,</li> <li>- using overall usefulness (sum of the products of usefulness and weights).</li> </ul>
Suitability conditions	<ul style="list-style-type: none"> <li>- recording the presupposition of effects,</li> <li>- hierarchic structurability of the system examined,</li> <li>- determining the limits of pre-selection,</li> <li>- restriction to a set of homogeneous systems.</li> </ul>

(author's own work)

In order to choose the analytical methodology for the improvement of organizational capability and to perform the analysis, a series of aspects was composed, which can be interpreted for the purpose of evaluating existing structures and in creating new ones. There is a separate study performed for and a methodology applied underlying each of the aspects; their strength being not in their innovative nature but in their accuracy and

completeness. In this approach, each element of operation should convey the same values and bring the company closer to the implementation of its strategic objectives. Finally, a system of criteria for selecting the methodology for the second critical phase of organizational development and capability improvement, the ranking of the variation, has been composed for the purpose of effective implementation.

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