

# Organisation Theory

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Black box



Environment

# Organisation as a black box

- Goals (functions):
  - Profit (short term)
  - organisation value (middle term)
  - surviving (long term)
- Resources:
  - land – ground, building, heavy and complex equipment
  - capital
  - labour (man-power) – HR
  - information
  - entrepreneurship talent
- ? Process ?
  - combine resources
  - transform the resources to article of trade
  - connect a need to the good / service
    - to find a need
    - to create a need
    - to exchange the products against new resources
- ? Concerned actors ?


# Organisational actors



# Playing

Please, imagine the preparing to conclude the contract between actors or to bind the cooperation with.

Explain, what are the interests and the goals of different socio-economic actors:

- owners
  - managers
  - employees
  - trade unions
  - Invited specialists (free lancers)
  - controllers
  - local / State structures
  - local / State officials
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# Owners

## □ Goals

- Profit
  - Dividends, income
    - consumption
- Value
  - Protection against inflation
    - Stock exchange – rates of actions...
- Child – business for centuries
  - Sustainable development
  - Dimension
  - Power
  - Local reputation
  - ...

## □ ? Intervene to organisation functioning ?

# Managers

- Wage
  - Salary
  - Bonuses
  - Participation in property, ownership, actions
  - Stock-options ...
- Power
  - Dimension of department / enterprise
  - line in the CV
- Additional privileges
  - Membership in clubs
  - Flat ; Representative car ; Telecom.
    - Mobile phone and notebook
  - Compensation of expenses
    - Travelling ...
  - ...

# Employees


- Employment
- Wage
  - Salary
  - Primes, bonuses ...
- Content of work
  - Interesting job – self-developing
- Conditions of work
  - Schedule
  - Ecology
  - Ergonomic conditions
- Prospective – Career, experience
  - Long term future
  - Students after University
  - Reputation of the organisation
- Additional +
  - Transport (placement)
  - Access to internet ...



# Trade unions

- Defend the interests of employees
  - Protection at workplace (conditions)
  - Wage (minimal level, indexation)
  - Discrimination (disabled persons, women, young people)
  - Participate in making decision (representatives in council)
- Negotiations with administration
  - to save the enterprise, co-operate
    - i.e., Scandinavia, Germany (?) – compromise
  - to obtain, to realise requirements
    - i.e., France – fighting tradition
- Their own personal interests ?
  - Negotiate with administration (money, privileges...)
  - Exercise power

# Invited specialists (free lancers)

- Money – honorary
  - Portfolio
    - Quality of product
    - Originality
    - Organisation's name – reputation
  - Technologies – equipment
    - New experience
  - Knowledge
    - New experience
  - Personal contacts
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# Control structures

- Taxation
  - Collect the income to budget
  - Possible to negotiate (long term reasoning)
- Labour inspection
  - State laws
- Ecology
- Sanitarian control, firemen, healthcare...
- Moral ??
  - Leaders (regional governor, national president/prime minister)
    - V.V. Putin in Pikalevo
    - V.V. Putin in the mine Raspadskaia
    - D.A. Medvedev about this summer fires

# Local / State structures

- Satisfy the needs of the nation, of people, community
  - economy
  - political role, power in the world
  - social stability (decrease marginality)
  - Infrastructure (roads, schools, purification plants...)
  - Security (defence, health...)
  - Management of territory (parks, courts...)
  - Culture (education, museums, landscape...)
- Satisfy the needs of their party
  - elections...
- Local NGO, initiative groups
  - Needs of the community, inhabitants
  - humanitarian values

# Local / State officials

- Security
  - wages
  - stability of the position
- Responsibility ??
  - As positive motivation
    - Career
    - Power
    - Stability
  - As danger
    - potential punishment
- Corruption
  - Personal interest
  - Only restrained group of people

# Organisation's Goals:

## □ Financial goals:

- profit maximisation (and minimisation of costs)
- income maximisation
- sales maximisation
- Stock value maximisation

## □ Market goals

- Market part maximisation

## □ Individual and group goals

- Power, influence (department or organisation size)

## □ Non economic goals

- NGO (social, humanitarian, cultural...)

...

□ Maximisation

□ Satisfying

# Entrepreneurship theory

The entrepreneurship activity consists in:

- Combining resources (capital, labour...)
- Transforming invention into innovation (Joseph Schumpeter)
- Creative destruction across markets and industries
- Taking risk in uncertainty
- Leadership

# Agency theory

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graph TD; A[Agency theory] --> B[Principal]; A --> C[Agent];
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□ **Principal** (delegates work to another)

**Owner**

- Founders
- Investors
- Shareholders

□ **Interests:**  
dividends + stock quotation

□ **Agent** (performs that work)

**Manager**

- Top executives in organisation

□ **Interests:**

revenue = salary + bonus +  
power (organisation size)

□ **Opposite interests – Contract theory**  
(how economic actors can and do construct contractual arrangements, especially when the desires or goals of the principal and agent conflict)

□ **Information cost and disposal**  
(it is difficult or expensive for the principle to verify what the agent is actually doing)



# Agency theory - consequences

## □ Information asymmetry

- one party has more or better information than the other party in transaction  
the principal's inability to observe and/or verify the agent's action

## □ Moral hazard

- a party insulated from risk, such as through insurance, will be less concerned about the negative consequences of the risk than they otherwise might be, so less vigilant

## □ Opportunism

- practice of abandoning in reality some important principles that were previously held, in the process of trying to increase one's power and influence

# Managerialism

«Managerial Revolution» (James Burnham, 1941)

- Elite of Graduates
  - Elevating holders of MBA degrees
- Organising principle in society:
  - Managerialist alternative to Socialism / Democracy
- Technocracy as a system of governance
  - laws are enforced by designing the system such that it is impossible to break them
- Techno-structure
  - Managerial methods
  - Managerial goals and solutions
  - Managers and technical specialists
- Economic expansion reflects the goal to reach the optimal rates of power and prestige by following a path towards product excellence and maximum growth.
- The main purpose of corporation is the market share or organisation growth, combined with satisfactory profits

# Thank you!

## □ Questions?

- Send your presentations to [nnp@europe.com](mailto:nnp@europe.com)
- Exam – mid Feb 2016