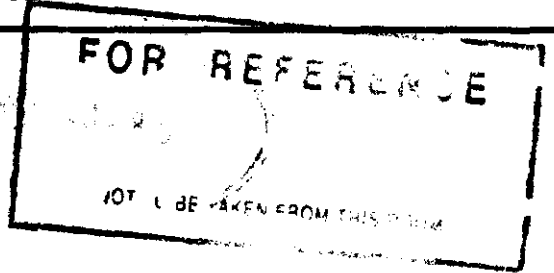


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ORGANIZATIONAL PROBLEMS

OF GROWING FIRMS

By

Ercan Oyman

A THESIS

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ACKNOWLEDGEMENTS

This research is conducted with an objective of providing a perspective on organizational problems which occur at each stage of company growth. To enlighten the basic concepts, information is secured from books of well known authorities in the field of management and from companies operating in Turkey.

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Also, I would like to express my gratitude to the Chairman Managing Director and Works Manager of the "X" Metal Processing Company, and the Chairman, Managing Director, President and other executives of the "Y" Metal Works Company and "Z" Metal Industries Inc., in giving the relevant data, allowing for an overall direct interview and survey of company operations.



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PART I

BACKGROUND INFORMATION

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CHAPTER 1

INTRODUCTION

A. ORGANIZATION CONCEPT

Organization concept exists among living creatures in nature. Animals organize their activities for continuation of their lives. For example, they search for food to eat throughout the season, and shelter to protect themselves from nature and enemies. They live in small or large groups. The activities to be covered are divided among members of each group. Each member knows what and how to do a specific task assigned. They often have one or more leaders depending upon the size of the group, and scope of activities to be covered. Thus, the degree of organization changes from group to group.

Human beings also organize their activities for the purpose of survival through continuous satisfaction of their biogenic and social needs. However, organization is done in a better way than animals. Animals organize their activities with certain instincts, responses, and with the help of sensory organs. Men use their creative minds instead. They decide on what is good or wrong. They have the ability to predict what will happen in the future. They can talk to each other and convey ideas, and come to a better solution. They have wider activities to cover; organization of activities are done by the process of decision-making.

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They also live in groups of different types.

It is the human beings who form the work groups or business firms for the satisfaction of their basic needs. The survival of the business is maintained through organization of activities to be performed. Better organization means welfare of both business firms and individuals.

Similarly, success of a business firm depends upon individuals. It is the individuals who organize the works of a business. Hence, the degree of success is determined by the degree of organization, and number and type of individuals forming the structure.

However, a perfect organization of activities will not be attained due to several restraints, such as size and magnitude of tasks to be performed, type and number of individuals involved, physical facilities, social and psychological factors. Therefore, no matter how well a business firm is organized, it is certain that there will still be some organizational problems to be dealt with.

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B. PURPOSE OF THE STUDY

Books have been written about organizational theories or principles. Even surveys have been conducted by social scientists to determine the rise of major organizational problems at each stage of company growth.¹ Numerous studies have also been made to find out the social and psychological problems that affect organizational efficiencies and effectiveness of business firms. Besides, literature is full of information about organization of small, medium and large size companies.

However, in the literature, less emphasis has been put on growth process in firms from infancy to maturity, on nature of problems they face at each stage of development, on ways the organizational functions are applied, on intensities of problems arising from organizational set-up, on effects of these problems to company operations, and on relationships between problems traced by the interaction among company organization systems and environmental systems.

¹ Such a study was made by Ernest Dale early in the 1950's. Dale included about 40 manufacturing companies in his survey, and analyzed the rise of organizational problems at each stage of growth. See E. Dale, Planning and Developing Company Organization Structure, Research Report No. 20, New York; AMA, 1955.

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Systemy problems may be related with several factors, e.g. organizational, financial, human, etc.,. These factors may have their roots in other sub-factors. In order to determine the actual relationship between company problems and factors an analytical approach is needed.

Therefore, the purpose of this study will be to verify the below hypotheses:

$$(1) M_p = f(O_p, F_p, P_p, \dots)$$

$$(2) O_p = f(C_s, E_f, G_s)$$

where:

M_p = Management problems

O_p = Organizational problems

F_p = Financial problems

P_p = Personnel problems

C_s = Company size

E_f = Environmental factors

G_s = Growth stage

This simply means that: (1) Management problems are a function of organizational problems, financial problems, personnel problems and other problems, (2) Organizational problems are a function of company size, environmental factors and growth stage.

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The verification of the above hypotheses can help us in solving the company problems which are related with organizational causes.

For example, low production problems of a company might be related to organizational problems such as the lack or deficiency of production planning and scheduling, inefficient supervision, coordination and control and/or improper assignment of tasks to employees who are engaged with production activities.

Similarly, these organizational problems might be due to either environmental factors, (social, psychological and physical) company size (small, medium and large), and/or growth (increase in the volume of work).

Once the actual relationship between organizational problem(s) and system problem(s) is determined then the factors causing such a specific problem can be easily identified, and alternative courses of action might be taken for their remedies. Also, this might help us to find out other problems, e.g., financial, personnel, material, etc., that are related with company problems.

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Physical and structural growth are stimulated or restrained by economic, social, psychological and physical factors. Organizational problems arise due to restraining actions of these factors.

Chapter 3 is designed for the purpose of enlightening the organizational problems that arise, and of analyzing the relationship between organizational problems and (1) size of the firm, (2) stage of growth, (3) environmental factors.

Organizational problems are discussed under the light of basic principles. Then the way they appear in small, medium and large size firms are described by putting emphasis on their causes

Second, the hypotheses are verified theoretically in Chapters 4 and 5.

The objective of Chapter 4 is to detect the organizational causes of management problems. Hence, major management problems are introduced, and their causes are analyzed in detail.

Production, marketing, finance and personnel problems are generally due to several interrelated causes which have their roots in organizational problems. For example, high operation costs (production problem) usually arise from high price of raw material, inefficient operation of machines, improper use of tools and equipment and waste of material, etc. Analysis shows that these causes are directly related with organizational problems,

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organizing, planning, directing and controlling.

Chapter 5, on the other hand, is devoted to the determination of the degree of influence of growth process on organizational problems and also to investigation of the relationship between management problems and organizational problems. Thus, the rise of organizational and management problems are discussed and illustrated by tables in the Appendix.

As the size of the firms increase not only existing organizational problems magnify but also new organizational and management problems arise.

In Chapter 6 the hypotheses are further verified after a thorough analysis of the organizational set-ups of the three representative Turkish firms.

The purpose of Chapter 6 is to examine the degree of relationship between the organizational problems and the variables (company size, stage of growth and environmental factors).

The current organizational problems of the three representative firms, e.g., small medium and large, are discussed after thorough investigation of the growth process.

The analysis shows that the organizational problems are also related with company size, stage of growth and environmental factors. The degree of influence of the second and the third variable is greater than the first.

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CHAPTER 2

THE GROWTH PROCESS IN FIRMS

A. PURPOSE

In this chapter types of growth, the nature of the growth process and the role of environmental factors will be discussed to provide a basis for the theoretical analysis.

B. DEFINITIONS

1. Physical growth - is the expansion of the existing production lines, plants, and buildings of a firm.
2. Structural growth - is the development of the organization set up. Changes in authorities and responsibilities, channels of communication, decision making and control mechanisms.
3. Growth by evolution - is the stage by stage development.
4. Growth by revolution - is expanding after setting quite a large physical and organization structure.

C. GROWTH BY EVOLUTION

Business firms usually grow by evolution. However, this stage by stage development from infancy to maturity is the characteristics of most small firms.

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Small firms because of their weak financial and organization structure pass through certain critical stages during the course of their development. They treat the organizational problems as they go along. Some of the problems which arise at earlier stages are either solved at that or delayed at a later date.

Evolutionary growth is either physical or structural. In most small firms physical growth occurs first. Structural growth is seen at later stages. The time lag between structural growth and physical growth is rather long, especially, in the early stages of growth. That is when the small firm approaches to medium size.

For example, the time lag between physical and structural growth of the "Z" Metal Industries, Inc., depicted in Figure 1, is six years. This was generally due to the shortcomings in the company management.

D. GROWTH BY REVOLUTION

Some companies start growing after setting quite a big organization structure.² A typical example is Eregli Iron and

² Türk-Direlli Rubber Company, Uniroyal Rubber Company, Turkish Cement Industries, Çanakkale Ceramic Industries, Dyo Paint and Enamel Factories, Unilever Ltd., and (IMSA) Istanbul Soft Drink Industries have also grown by Revolution.

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Steel Company.

This company has first designed its large organization structure, and then started to grow physically and structurally.

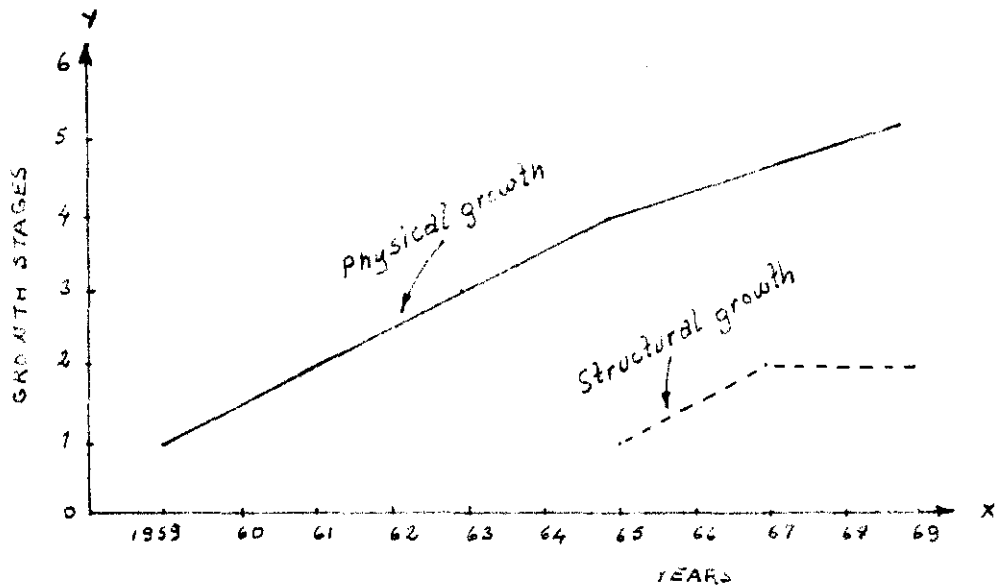


FIGURE 1: - Time-Lag Between Physical and Structural Growth of "Z" Metal Industries, Inc.,.

+ The growth stages are depicted in Table 1, p. 27.

Revolutionary growth starts from small size, medium or large size depending upon the type of industry. Also, further growth, which is evolutionary in nature, occurs either as a result of growth through geographical dispersion (opening new sales or service outlets at different locations) or of product diversification (expanding the production lines, erecting additional buildings near the vicinity of the existing buildings or at different

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regions. This case is illustrated by several examples depicted in Table 1.

Similarly, because of their financial strength and quite well designed organization structure the speed of the growth process is rather high.

As in all firms, organizational problems occur also in these firms. But they are handled in a better way than those firms which grow by evolution. Survey results show that this is mainly due to the management process.

Also, business firms which fall into this category often prepare themselves for growth. Hence, the time lag between physical and structural growth is rather short. Figure 2 shows the physical and structural growth of Eregli Iron and Steel Company.

As seen from the figure the time lag between physical and structural growth is only one year.

E. THE ROLE OF ECONOMIC EXPANSION

Economic expansion plays an important role in the development of business firms. Increase in standards of living and per capita income usually brings increase in buying and selling activities. Since prosperity is a strong stimulant for change in habits, buying motives and consumption patterns, there will be high demands for new products. Firms will diversify their production line and start manufacturing new products for different

Size when established	Name of Firm	Nature of growth
Large	Ereğli Iron and Steel Company	Opening new sales outlets in big cities
Medium	Turkish Cement Industries	Erecting plants in different regions
Medium	Çanakkale Ceramic Industries	Expanding production lines opening new sales outlets
Medium	Dyo Paint and Enamel Factories	Erecting new plant, opening new sales outlets
Small	IMSA	Erecting additional similar plant in a different region
Small	Unilever Ltd.	Erecting soap plant at a different location in Istanbul

TABLE 1: - Nature of Growth that is seen in Some Turkish Firms

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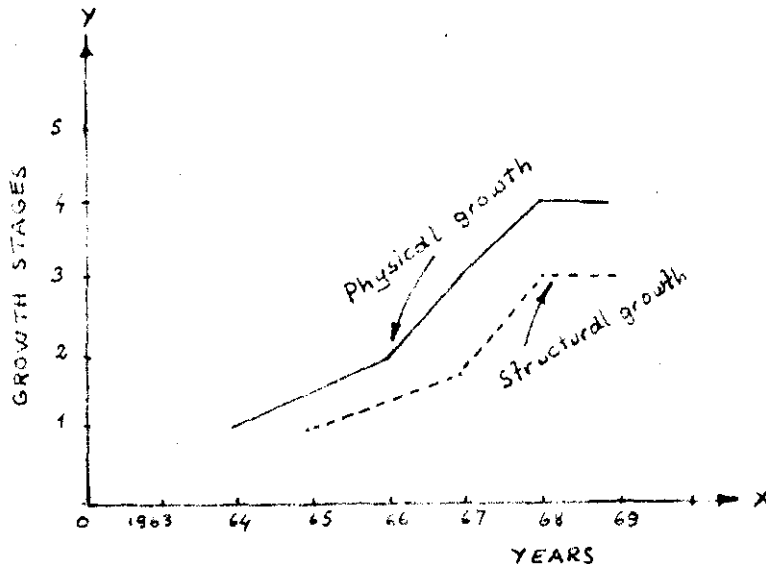


FIGURE 2: - Time-Lag Between Physical and Structural Growth of E. Iron and Steel Company

markets. The more they sell the more the profits will be. Profitable returns will lead to new changes in strategies and structures.

For example, the enormous expansion of the U. S. Economy after World War II has lead the rapid growth of a multitude of business firms. Especially those firms such as Du Pont, General Motors, Jersey Standard, Sears, Roebuck and Company, which were greatly influenced by the economic depression before the war years, were able to show quick growth patterns with the burgeoning of

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markets and swiftly advancing technology of the postwar years.³ Product diversification brought multidivisional autonomous structures both in these firms and other, e.g., Hercules Powder, Monsanto Allied Chemicals, Celanese Corporation of America, American Viscose, Columbia Carbon, Carborundum, American Cyanamid, Koppers, Pittsburg Coke and Chemicals, Eastman Kodak, U. S. Rubber and Goodrich, etc.⁴

Du Pont, General Motors, U. S. Rubber, Ford, Goodyear, Allis Chalmers, Union Carbide, Carborundum, Black and Decker, Vuaxhall Motors and other highly diversified firms also expanded their resources to overseas areas. Expecially, these business firms have made most obvious, controversial, quantifiable impact on Britian by the direct method of investing there. The statistics show that there are more than 1,700 U. S. subsidiaries and Anglo-American firms operating in Great Britain.⁵

F. FACTORS RESTRAINING THE GROWTH PROCESS

In business firms the speed of both structural or physical growth might not be the same with what is actually desired. It may slow down, follow a normal pace or increase depending upon the number of constraints.

³ See A. D. Chandler, Jr., Strategy and Structure, Cambridge, The M. I. T. Press, 1962, pp. 1, 44.

⁴ Ibid., p. 45.

⁵ J. H. Dunning, American Growth in Britain, Management Today, February, 1969.

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Growth is usually slowed down or delayed because of the higher pressure put by numerous environmental factors, e.g., physical, social, financial behavioral and manpower.

1. Physical Factors.- The size of the area where plant or business firm is located plays a major role in physical expansion. Business firms which are located on rather small areas, where there is no possibility of either horizontal or vertical integration, delay physical growth for some time till they find new plant site for future development.⁶ This is mostly seen among small firms operating especially in densely populated areas.

2. Social Factors.- Customs, rules, morés, social cliques are also restraints for growth. Especially, they play a crucial role in structural development.

3. Financial Factors.- Short of credits or funds also influences the speed of growth at each stage. Most firms because of financial restrictions, either delay future expansion or start growing with a slow speed by allocating the existing resources.

Small firms, because of their weak financial structure, and because of the difficulties they meet in finding sources, usually delay growth although there is a need for quick expansion.

⁶ The "Y" Metal Works Company and "Z" Metal Industries, Inc., discussed in Chapter 6, had to delay future expansion because of not having enough floor space on their existing locations.

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4. Behavioral Factors - Human beings usually resist to changes. This is inherent almost in all individuals. They do not desire to spoil the spirit of their work which they have been used to. Habits which have been developed cannot easily be changed; most people do not even want to change the way they behave. Thus, reaction is the natural phenomenon.

Especially, structural growth is mostly influenced by human reactions. Because of the status they have gained and working habits and methods they have designed, they strongly react against new developments that have to be made. As a result, the desired growth is either delayed or slowed down.

5. Manpower Factors - Most of the business firms cannot grow as rapidly as they want because of manpower restrictions. Firms cannot always find, with ease, the right calibre of personnel needed. This has strong effects both on structural and physical growth.

Since, uniformity in the management process can not be attained, due to manpower restriction, the speed of physical or structural growth will not also be the same at each stage.

Similarly, the desired physical and structural growth may even be delayed due to shortage of desired manpower.

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G. THE ROLE OF MANAGEMENT COMPETENCE

A business firm which does not realize or appreciate the importance of management competence may grow for some time simply by chance. That is, it might obtain high profits as a result of its lucky operations or favorable states of nature.

By sheer luck or accident the firm might invest in the most profitable business areas, and because of this it might realize very handsome returns. But nobody can guarantee that the same luck will continue forever.

This is characteristic of most small firms. Small firms because of their weak financial and organizational structure run their activities relying heavily upon chance factor. They operate under too many uncertainties and risks. If everything goes well they stay in business; if not they either quit or look for other opportunities.

Even opportunities may come out sometimes by chance. But it is the chief executive of a small firm who evaluates the opportunities and selects the most advantageous alternatives which will bring high profits. Hence, the degree of profitability is correlated with management competence.

Firms which have recognized the role of management competence have been more successful and grown faster than those which have ignored and operated by pure chance. Even small firms having

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less financial strength have been able to grow faster; not simply by "pure luck" but by managerial talent.⁷ It is the "chief executive" or the executives of a small firm - who through his or their evolving managerial skills - have motivated and guided the successful growth of the company from the time of its establishment.

Risks and uncertainties are the component parts of the states of nature. Business life is full of risks and uncertainties, and firms have to operate under the "favorable" and "unfavorable" states of nature. Good states of nature involve less risk and less uncertainties.

Problems are likely to arise under every state of nature. Risks might be high or low; uncertainties many or few, but it is the people in a business organization who forecast, analyze, evaluate the "likelihood" of the state of nature (considering the degrees of risks and size and magnitude of uncertainties), and design alternative courses of action for future operations. The better the states of nature known, the better the results will be. This can be accomplished by management competence. Hence good

⁷ Hyatt Roller Bearing Company was able to develop rapidly under A. P. Sloan's management. See also the history of General Motors, Chandler, op. cit., pp. 130-133; Rank xerox outstanding performer of the Rank Organization earning 41% of the corporations revenue in the last financial year and 84% of its profits owes its rapid growth to successive reorganizations. See Geoffrey Foster, The Rank Xerox Boom, Management Today, February 1969.

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management is achieved through people in a business who form the organization structure.

Management is a dynamic process. It has to change as the time passes by, and has to adapt itself to prevailing conditions. It is the people who are involved in the process; who respond, initiate and lead these changes. Therefore, for the firms to continue to grow, the people or the "management team" must also grow.

In actual business situation, however, this side by side growth pattern is not seen very frequently. It might be possible for large size companies which recognize organizational development in order to be more successful in their future operations. Besides, in most of the small and medium size firms this parallel growth is seldom or not seen at all because of social and behavioral factors. Also, the growth process is rather slow compared to large firms.

Growth is related mainly with the organization structure. Well organized firms are more likely to grow faster than others both in physical and managerial terms.⁸ The degree of growth depends upon the degree of co-ordination of these terms.

Perfect and equally balanced organization structure is difficult to attain. Well organization might be achieved by few

⁸ Du Pont, General Motors, Jersey Standard, Ford Motors, Sears, Roebuck and Company, U. S. Rubber, Westinghouse are typical examples.

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large firms, but there will be still some organizational problems. which will bolster the operations if not carefully handled without delay.

Poor organization is the characteristic of most small firms. Small firms can not grow as rapidly as large firms because of the diversity and multiplicity of organizational problems which need to be solved by successful management. Since managerial success is not often seen in most small firms - due to various dominating factors - organizational problems arise and develop, and even become more complicated during the course of their operations. If some of the problems are not handled, the small firms will show rather slow growth pattern or not at all. This is the main reason why small firms stay small.

Small firms which have been able to solve some of the organizational problems by creative and skillful executives - who are or has been in command - have tended to grow in size.

In most medium-size firms organizational structure reflect a better picture when compared with small firms. Functionalization has eliminated at least some of the major organizational problems. There is an over-all management team who runs the companies. Future growth is planned through management teamwork. This is also seen in a well designed fashion in most large firms. On the other hand, small firms neither respond nor prepare themselves for growth.

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Growth has its roots in management competence which is achieved through careful and systematic design and operation of a formal organization structure. Since such an ideal, equally balanced and well-operated organization system cannot be maintained by most business enterprises, management process will not be in perfect shape. It will be seen in different forms under different organization structures. Hence, there will be organizational problems of numerous types. These will be discussed in detail in the proceeding chapters.

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CHAPTER 3

THEORETICAL FRAMEWORK

A. PURPOSE

In this chapter organizational problems that arise in firms during steady and growth stages will be theoretically analyzed to establish a basis for the verification of the below hypothesis:

$$O_p = f(C_s, E_f, G_s)$$

where:

O_p = Organizational problems

C_s = Company size

E_f = Environmental factors

G_s = Growth Stage

This means that organizational problems are a function of company size, environmental factors and growth stage.

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B. THE UNIVERSALITY OF ORGANIZATIONAL THEORY

Organizational theory is of universal validity to every institution. The same principles are applied in military, religious, social, government and public establishments in each country. For example, delegation, specialization, span of control, grouping, decision making, planning, etc., principles are used in a religious institution as well as in military, social and other establishments. Also, a public enterprise in Turkey utilizes the same principles which are used by other organizations in America, Europe, Asia, and Africa. Even the same principles exist in orphanage societies and first aid associations in every country.

The only difference arises from methods of application. This is mainly due to individuals and the nature of the business of the institutions.

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C. STAGES OF COMPANY GROWTH

Dale¹ in his research report, identifies seven major stages of company growth. The analysis of the organizational problems that arise in business firms at each stage of growth, and the verification of the hypotheses are made in the light of his findings which are summarized in Table 1 on the next page.

In this table, stages of growth, number of employees, some organizational problems and their possible consequences are given. It does not identify the company size such as small, medium and large.

The company size and the corresponding stages are shown in Table 2.

The organizational problems, e.g., formulation of objectives, delegation of responsibility, delegation of more management functions, reducing the executives burden, functionalization, coordination of management functions and determining the degree of delegation, corresponding to each stage of growth (I - VII) are discussed in lieu of their possible consequences.

¹ Ernest Dale, Planning and Developing the Company Organization Structure, Research Report No: 20; New York: AMA, 1955.

Stage of Growth	No. of Employees ⁺	No. of Employees ⁺⁺	Organizational Problem	Possible Consequences
I	3-7	Any size	Formulation of objectives	Division of work
II	25	10	Delegation of responsibility	The accommodation of personalities
III	125	50-100	Delegation of more management functions	Span of Control
IV	500	50-300	Reducing the executive's burden	The Staff assistant
V	1500	100-400	Establishing a new function (Functionalization)	The staff specialist
VI	5000	100-500	Coordination of management functions	Group decision making
VII	465000	Over 500	Determining the degree of delegation	Decentralization

+ Actual size

++ Size at which problem may arise

TABLE 1: - Seven Major Stages of Company Growth (Source: Ernest Dale, Planning and Developing the Company Organization Structure, Research Report No. 20, New York: A.M.A., 1955, p.22.)

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COMPANY SIZE	NUMBER OF EMPLOYEES	STAGES OF GROWTH
Small	3 - 500	first, second and third
Medium	500 - 1000	fourth
Large	Over 1000	Fifth, sixth and seventh

TABLE 2: - Company Size and Corresponding
Growth Stages

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D. ORGANIZING AND ORGANIZATION

The terms of organizing and organization are used in different ways in literature. In his book titled "Personnel Management and Industrial Relations",² Dale Yoder defines organization as "the term that describes both a process and structure", and organizing as "the process of creating a systematic whole composed of interdependent parts". In any business activity, whether small, medium or large, organizing is generally applied to individuals and their work. It is simply the process which assigns authorities, responsibilities and functions to individuals and groups engaged in business activity. In his "Organization of Industry",³ Alvin Brown explains, "organization defines the part that each member of an enterprise is expected to perform and the relations among these member".

Many writers have emphasized these dynamic and "process" aspects. Hence, Henry Le Chatelier, in his "Methodology in the Experimental Sciences", and Oliver Sheldon, in the "Philosophy of Management", were influenced with organizing processes rather than ~~than~~ the structure of organizations. Sheldon defines organization

² Dale Yoder, Industrial Relations and Personnel Management, Englewood Cliffs, N. J. Prentice-Hall Inc., 1956, p. 131.

³ Alvin Brown, Organization of Industry, New York: Prentice-Hall, Inc., 1947, p. 10.

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as "the process of so combining the work of individuals and groups with necessary facilities and materials as to provide the best channels for the efficient, systematic, positive and co-ordinated application of the available effort".

"The result of the process of organizing is a structure or organization. This structure provides a systematic arrangement of functional assignments in which component parts have specialized duties, all presumably contributing to the overall objective".⁴ As a structure, it is what the dictionary calls a "vitally or systematically organic whole; an association or society".⁵

1. Specialization

Taylor is considered to be the originator of the idea of complete utilization of the principle of specialization. His concept of specialization, which he referred to as "functional" management, was to divide the work of management so that each supervisor would have a minimum of functions to perform.⁶

⁴ Dale Yoder, Personnel Management and Industrial Relations, Englewood Cliffs, N.J. Prentice-Hall, Inc., 1956, p. 132.

⁵ Lyndall Urwick, The Theory of Organization, New York: American Management Association, 1953; E. D. Bird, "Dynamic Organization" Advanced Management, Vol. 16, No. 6, June 1951, p. 2.

⁶ F. W. Taylor, Shop Management, New York: Harper-Row, 1947, pp 98-99.

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Taylor's functional management soon ran afoul of another important principle of organization; viz., the principle of unity of command. Because of the lack of discipline, and the multiple interrelationships caused by functional management, it soon fell into disuse.⁷

Although specialization has been widely applied in the last sixty years, there is still controversy over the exact application of the principle, especially in the definition of whether specialization should be by function or place.

However, most attention has been directed at one type of specialization which is based on differences in the kinds of tasks to be performed.

Thus, in a typical business organization functions such as marketing and sales, production, finance and accounting are segregated. Each function is further divided into operating units. For example, within the field of production, organization may recognize additional specialization, such as machine shop, electric shop, carpenter shop, paint shop and foundry. Such a "horizontal" division of labor and specialization of work has long been regarded as the essential basis for organization.⁸

⁷ Douglas C. Basil, Organization and Control of the Smaller Enterprise, No. 20, Minneapolis, University of Minnesota Press, 1959 p. 8.

⁸ Luther Gulick and L. Urwick, Papers on the Science of Administration, New York, Institute of Public Administration, 1937, pp. 10-15.

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In addition to "horizontal" specialization, Simon has explained a "vertical" type which is based mainly on decision-making. The resulting structure assigns decision-making functions to various echolons within the system. Simon summarizes that such vertical specialization is designed to work toward three ends: (1) to achieve co-ordination among specialized types of work; (2) to create and develop expertness in decision making; and (3) to facilitate the assignment of responsibility for decisions.⁹

Specialization by function is rather important for a small firm even at earlier stages of growth. But it is often neglected because of the nature and volume of work, and because of the environmental factors, (financial difficulties, working habits, boss's will to do things in his own way, etc.). Hence, in most small firms having 3 - 12 employees actual specialization does not usually exist.

A typical example of a small firm having no functional specialization is depicted in Figure 1. In this figure workers are not segregated according to the functions to be performed, and the leadman is the only one who is responsible from different functions.

⁹ Herbert A. Simon, Administrative Behavior, New York: The Macmillan Company, 1949, pp. 9 - 11.

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The actual need for specialization arises when the size of the firm reaches (20-100) employees. This is usually the stage where increase in the volume of work requires assignment of functions to specific individuals. For example, in Figure 2, the metal workshop is divided into three operating units, e.g., machine shop, foundry shop and carpenter shop, and one leadman is assigned for each shop.

Although, vertical specialization is of little concern for a small firm, it is considerably important for medium and large size firms, in co-ordinating the tasks assigned to various levels.

In a medium size firm having functional specialization at different levels, organization may recognize vertical specialization by delegating decision making functions to certain levels. For example, as seen from Figure 3, the president may assign his decision making responsibilities to the personnel, operations, accounting and sales managers. Also, each manager may delegate part of their decision making responsibilities to their section supervisors for better co-ordination and performance of activities.

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Ch 3 ④ Fig 1

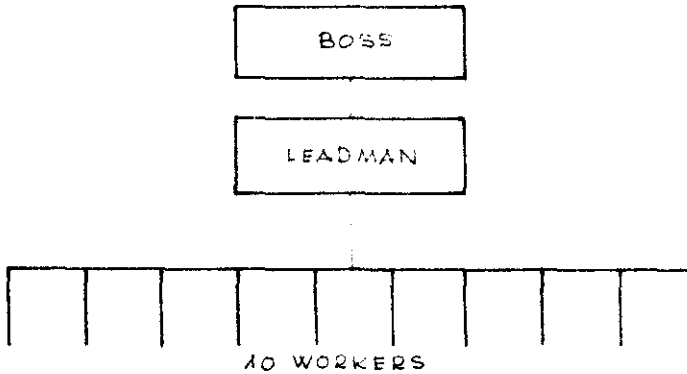


FIGURE 1: - Typical Example of a Small Metal Works Firm having No Specialization

Ch 3 ④ Fig 2

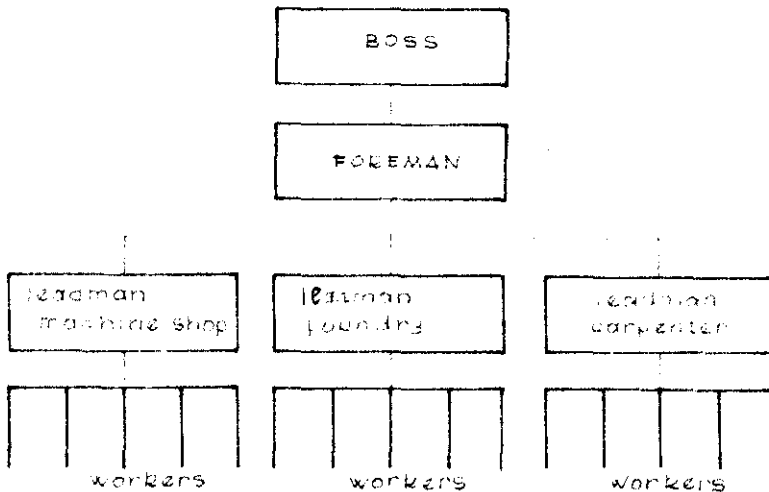
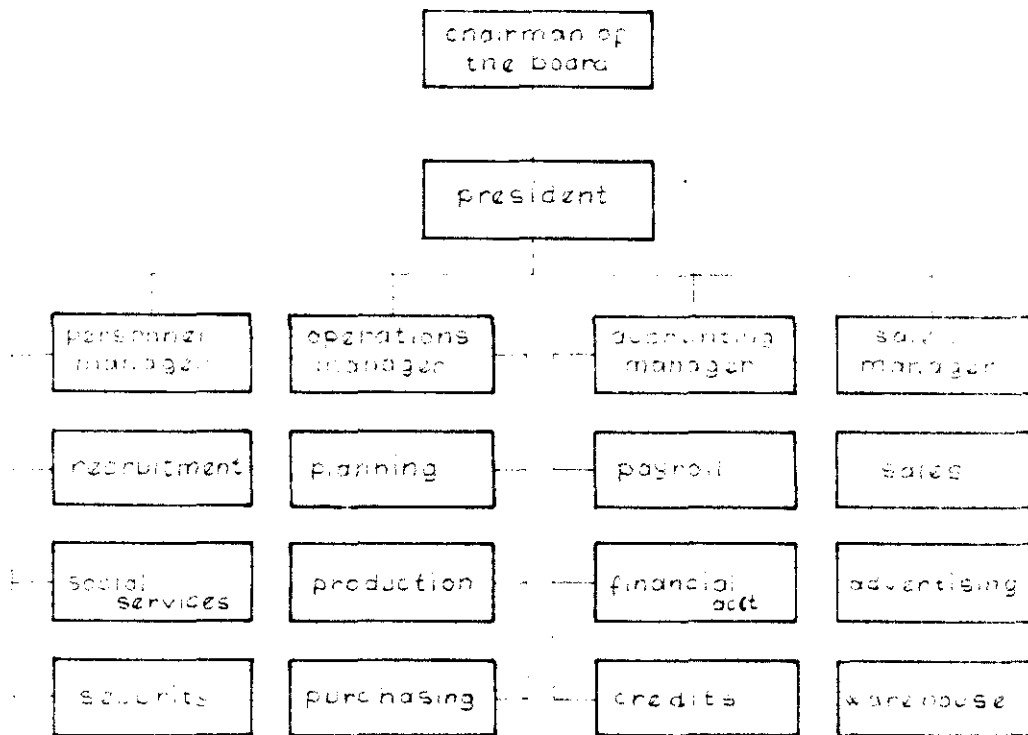


FIGURE 2: - Division of Work in a Small Metal Works Firm (Size 20 Employees)

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**FIGURE 3: - Functional Specialization in a
Medium Size Firm (Size: 550-600
Employees)**

2. Purpose of Organization

The common purpose of organization or the process of organizing is to achieve effective teamwork in a business firm. That is, "to secure unity in achieving goals, to gain something organic unity or entity. Organization is under-taken and an organization is created to facilitate effective joint action

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through the co-ordination of specialized, contributing functions.¹⁰

3. Bases for Organization

The usual "bases" for organizing have been outlined by Anderson and Schwenning¹¹ as: (1) space and location, (2) time, (3) nature of product, (4) nature of raw materials, (5) tools and equipment, (6) nature of processes, (7) skill and personal characteristics of employees, and (8) logical relationship of activities. These bases tend to influence if not to dictate the direction and extent to which organization will be carried in both horizontal and vertical specialization. Newman¹² has emphasized six patterns of organization, grouping staff and facilities by (1) products or services, (2) geographic location, (3) time (in continuous processing operations), (4) customers, (5) processes, and (6) functions.

¹⁰ Dale Yoder, op. cit., p. 133.

¹¹ E. H. Anderson and G. T. Schwenning, The Science of Production Organization, New York; John Wiley and Sons, Inc., 1938, p 109.

¹² William H. Newman, Administrative Action: The Techniques of Organization and Management, New York; Prentice-Hall, Inc., 1951, pp 125-128.

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4. Principles of Organization

Pfiffner and Lane have summarized the basic principles of organization as follows:

1. There should be a hierarchy, sometimes referred to as the "scalar process", where in lines of authority and responsibility run upwards and downward through the several levels with a broad base at the bottom and a single head at the top.
2. Each and every unit or person in the organization should be answerable ultimately to the chief administrative officer at the apex of the hierarchy.
3. Every necessary function involved in the mission and objectives of the organization is assigned to a unit of that organization.
4. The responsibilities assigned to a unit of that organization are specifically clear cut and understood.
5. No function is assigned to more than one independent unit of one organization.
6. Consistent methods of organization structure should be applied at each level of the organization.
7. Each member of the organization from top to bottom knows: (a) to whom he reports, (b) who reports to him.
8. No member of the organization reports to more than one supervisor.
9. Responsibility for a function is matched by the authority necessary to perform that function.
10. Individuals or units reporting directly to a super-

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visor do not exceed the number which can be feasibly and effectively co-ordinated and directed. (concept of "span of control")

11. Channels of command are not violated by staff units, although there should be staff services to facilitate management and co-ordination.

12. Authority and responsibility for action is decentralized to the units and individuals responsible for actual performance of operations to the greatest extent possible, so long as such decentralization does not hamper necessary control over policy or the standardization of procedures.

13. Management should exercise control through attention to policy problems of exceptional importance rather than through review of routine actions of subordinates.

14. Organization should never be permitted to grow so elaborate as to hinder work accomplishments.¹³

5. . . Delegation

The principle of delegation is equally important for both large and small firms. Basil strongly advocates the necessity for delegation through the assignment of responsibilities and authorities "as soon as the firm has more than one employee".¹⁴

¹³ John M. Pfiffner and S. Owen Lane, A Manual for Administrative Analysis, Los Angeles: School of Public Administration, Univ. of Southern California, 1947, pp. 19-20.

¹⁴ Basil, op. cit., p. 16.

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Once the objectives of an organization is set, authorities and responsibilities must be assigned for the accomplishment of these objectives.

Delegation becomes acute when a firm has sufficient employees to allocate functions and responsibilities to each subordinate. Hence, the principle of delegation is a "major organizational problem that arises with growth".¹⁵

"One of the common difficulties in organization is the reluctance or inability of many executives to delegate. These executives cannot believe others can do the various jobs as well as they can. They may, of course, be right in many cases. The remedy, however, is to provide assistants who can accept responsibility and perform assignments. This difficulty, however, serves to emphasize the essentially personal nature of all organizations." ¹⁶

Although the need for delegating responsibilities arises at initial stages of growth, that is when the small firm has as few as ten employees, its actual need is felt at later stages when span of control principle enters into the picture.

In a medium size firm employing more than five hundred employees, delegation of responsibilities is felt even at lower

¹⁵ Dale, op. cit., p. 38.

¹⁶ Yoder, op. cit., p. 136.

echelons.

5. 1. Decentralization

Newman and Summer explains decentralization as a matter of dividing up the managerial work and assigning specific duties to various executive levels.¹⁷ Decentralization is one form of delegation which mostly appears in large firms having separate plants and divisions.¹⁸ An example of a decentralized organization structure is depicted in Figure 4.

In this figure, three independent divisions are shown. Each division is further divided into departments such as research and development, production, accounting and sales. The departments are also divided into units.

¹⁷ William H. Newman and Charles E. Summer, Jr., The Process of Management, Englewood Cliffs, N. J.; Prentice-Hall, Inc., March 1965, p. 38.

¹⁸ Past studies show that E.I. du Pont de Nemours and Co., General Motors Corporation, Standard Oil Co., and Sears, Roebuck and Co. are considered to be the pioneers in devising a decentralized organization structure. Du Pont and General Motors designed their new decentralized form right after World War I. Standard Oil Co. was reorganized in 1925, and Sears started its new structure in 1929. Considerable changes were also seen among firms such as United States Rubber, B.F. Goodrich, Union Carbide and Carbon, Westinghouse Electric Co., and The Great Atlantic and Pacific Tea Co. For further information see Chandler, op. cit. pp 2-3.

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One essential characteristic of this decentralized organization structure is that each division is free in decision making, and is not subject to daily direction from the central office, provided that the operations performed comply with the overall policies of the company.

The degree of decentralization may vary from department to department within a single company. The sales department, for example, may be highly decentralized. But the controller may hold to himself a great deal of planning, organizing, and motivating of the operations under his direction. Even within a department decentralization may vary.¹⁹

ch 3 (15) Fig 4

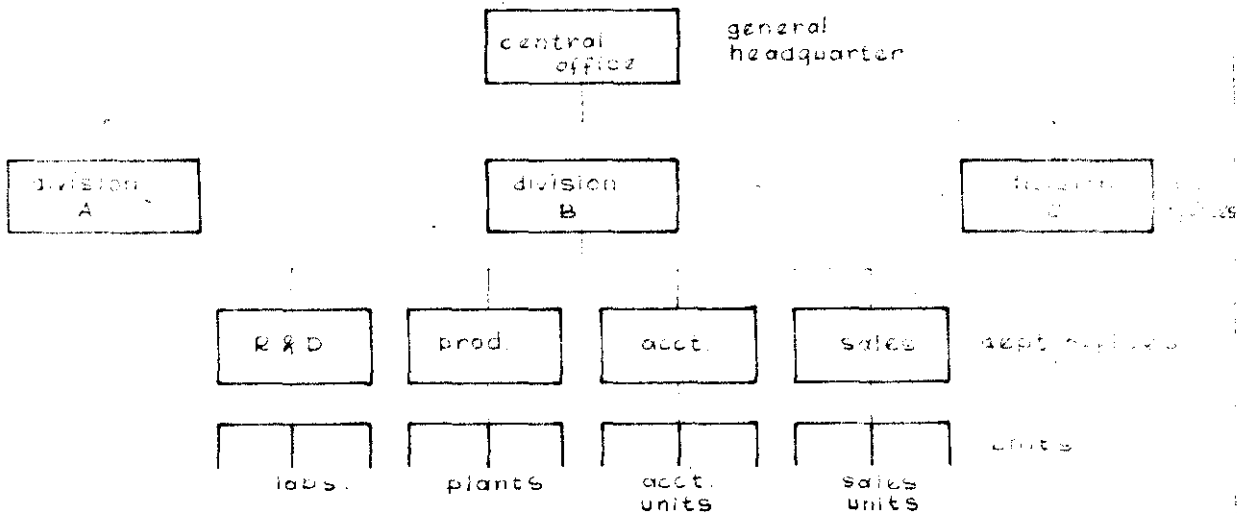


FIGURE 4: - A Typical Decentralized Organization Structure

¹⁹ Newman and Summer, op. cit., p. 81.

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5.2. The Span of Supervision

How wide the delegation would be? In the literature it is agreed that there should be a limit to the number of subordinates that a manager can supervise. Some say that the maximum limit is six to eight. In practice this not quite true. There are firms where one line executive has 25-30, even more, subordinates. How effectively they could supervise is also another matter which ought to be analysed.

However, to carry out the routine operations efficiently in an organization without creating any communication difficulty the optimum span of supervision must be determined. Newman concludes that the following factors must be considered in deciding on the limits of span of control: (1) time devoted to supervision, (2) variety and importance of activities being supervised, (3) repetitiveness of activities, (4) ability of subordinates, (5) degree of decentralization, and (6) staff assistance provided.²⁰

The span of control principle on the organization structure have been solved by large-sized firms by the application of decentralization. Additional levels of supervision is also seen in a medium-sized company in a limited manner. However, there is no similar answer for the small-sized firm. When the top executive of the small firm is faced with an increasing span of control

²⁰ Ibid. ..., pp. 108 - 109.

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he must consider whether the disadvantages of poorer control are greater than the additional costs and longer lines of communication which result from adding another level of command.

"Although costs are extremely important in the small firm the addition of a vice-president would be but a small cost compared to the failure of a firm through the inability of the president to control the firm's activities. However, the difficulty of obtaining a second-in-command with the necessary qualifications of general and specific management experience is almost insurmountable for the small firm. The best solution is for the president to recognize this problem early in the life of the company so that a young man may be trained for this position."²¹

Several writers of organization reach the conclusion that in a small firm the best solution to the increasing span of control is to decrease the number of reporting subordinates simply by bringing specialists to be responsible for various functions in the organization. "In fact, there is an additional level of authority, say, in the appointment of production manager, but this does not appreciably lengthen the line of communication."²² This case is illustrated by Figure 5.

²¹ Basil, op. cit., p. 32.

²² Ibid, p. 33.

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As seen from the figure, the span of control of the president has been reduced from four to one. The line foremen report to the production manager instead of reporting directly to the president.

chs 18 Figs

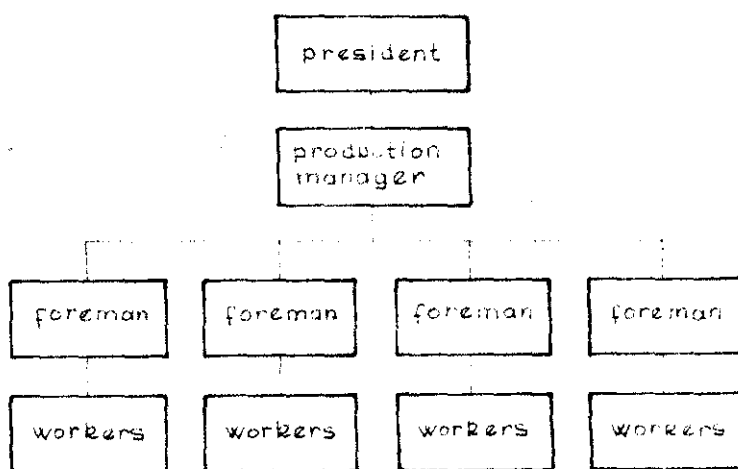


FIGURE 5: - The Use of Specialist in the Organization Structure (From Douglas C. Basil, Organization and Control of Smaller Enterprise, Minneapolis: The University of Minnesota Press, June 1959, p. 33.)

6. Informal Organization

Authorities and responsibilities may not be delegated as they are determined and actual specialization of job may be different from that prescribed in the organization chart of a firm.

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"The term informal organization refers to interpersonal relations in the organization that effect decisions within but either are committed from the formal scheme. It would probably be fair to say that no formal organization will operate effectively without accompanying informal organization. Every new organization must have its initial 'shake down cruise' before it will run smoothly; and each new organization member must establish informal relations with his colleagues before he becomes a significant part of the working organization".²³

Informal organization is seen almost in every firm. Especially, it has appreciable effect on the operations of small firms. Small firms do not usually have a formal organization chart showing the status of various positions. Also, individuals are assigned different duties without clearcut definitions of authorities and responsibilities.

Although, informal channels are frequently used in the early stages of growth, the need for a formal organization arises when the size of the firm approaches one hundred employees. This is usually the stage where additional levels of supervision is created to reduce the responsibilities of the chief executive.

At transition period increase in the volume of activities to be performed and decisions to be taken forces the executives

²³ Simon, op. cit., pp. 148-149.

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and subordinates to follow the formal channels.

6. 1. Informal Relationship Within a Formal Organization

The establishment of a formal organization structure can not guarantee that all personal communication will be made from formal channels.

No matter how well the status of the individuals are known, there will still be interpersonal relations in the organization which affects the decisions.

The underlying causes are numerous. It can not be tied only to one factor. Company size, growth and environmental factors play an important role in their creation and development.

Extensive use of this relationship within a formal scheme is seen in most small firms. Especially, in the later stages of growth, small firms depend heavily on informal relations, although they design a formal organization. This is partly due to growth and partly to environmental factors. That is, increase in the volume of tasks to be accomplished and close friendships that have been established over the years, incompetence of executives, strong individual conflicts, distrust, hate, nature of work, etc., usually forces the individuals to conduct formal relations.

In medium and large size firms informal relations tend to decrease. They occur only in a restricted manner at certain echelons.

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An illustrative example of informal relationship within a formal structure is given in Figure 6.

As shown in the figure, the manager A jumps off the president and contacts with the chairman. Also, the supervisor under the manager D directly communicates with the chairman. The president, on the other hand, by-passes the manager B and contacts with the supervisor under him. The same supervisor gets in touch with manager C without seeing his supervisor, manager B, and with the supervisor under manager C. The second supervisor under manager B contacts with manager A and the supervisor under him. Besides, the second supervisor under manager C directly communicates with the president.

cn3 (20) Fig 6

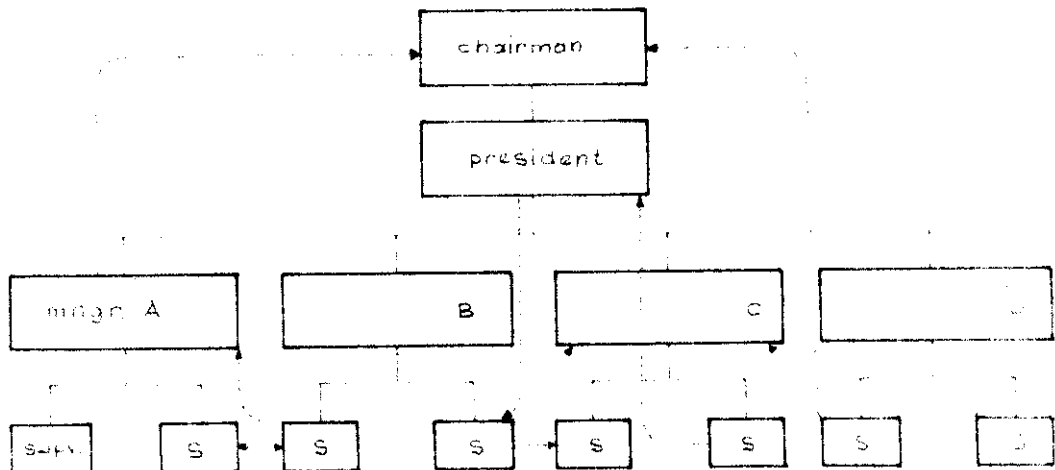


FIGURE 6: - Informal Relationship Within a Formal Organization Structure

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E. LINE AND STAFF

Before analyzing the line and staff relationships in business organizations a brief definition of the terms "line" and "staff" might be helpful. The "line" is the operating section of the organization in an enterprise, whereas "staff" divisions are the specialized units linked to the line for the purpose of providing professional and technical services, generally, in the form of advice and assistance.

"The basic job of the line is to carry out the central purpose of the organization. The line carries a continuous responsibility for action - for getting the job done. If the objective of a business firm is to produce goods, the line produces them.

Staff divisions are created within an organization to provide special knowledge and competence in fields in which these appear essential. Thus, an organization may create an accounting division, or one in finance, law, engineering, or employee relations. Each such specialized division contributes to the entire operation. Staff divisions are attached to the line but given a degree of separation from it, so that they may undertake special evaluations and studies and maintain their professional and technical competence."²⁴

²⁴ Yoder, op. cit., p. 20.

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1. Line and Staff Authority

Two types of authority identified in the organization literature are line and staff authority. Line authority is simply a relationship in which a supervisor can exercise direct command over a subordinate. "A relationship in which the occupant of one position can advise or counsel but not command the occupant of another position is called 'staff authority'. A person occupying a position with staff authority does not command others, but rather, his responsibility is discharged by providing information, advice and recommendations."²⁵

2. The Concept of Staff

Although the application of staff concepts has a long history in religious and military organizations, it has appeared recently, at the turn of the 20th century in business organizations, Harrington Emerson reported the first application of this concept to the Santa Fe Railroad Organization during the first decade of this century.²⁶ Similarly, the concept of "general staff" was applied by Du Pont as early as 1908.²⁷

²⁵ Rocco Carzo, Jr. and John N. Yanouzas, Formal Organization, "A Systems Approach", Homewood Illinois, Richard D. Irwin, Inc. and the Dorsey Press, 1967, p. 50.

²⁶ Harrington Emerson, The Twelve Principles of Efficiency, New York, Engineering Magazine Co., 1924, Ch. 2.

²⁷ Ernest Dale, Staff in Organization, New York, McGraw-Hill Book Co., 1960, pp. 186-187; Chandler, op. cit., pp. 59-62.

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"The functional differentiation of advisory and service activities found in the military staff organization, for instance, the general staff and special staff, also exists in the organization of business staffs."²⁸

Taylor's "functional management" contributed a great deal to the development of staff concept. Although, he did not emphasize the line and staff specialization, he explained that staff work or what he called "brain work" be segregated: "All possible brain work should be removed from the shop and centered in the planning or laying out department, leaving the foreman and gang bosses to work strictly executive in nature."²⁹

3. Staff Functions

Davis³⁰ in his analysis of staff lists six "basic" staff duties" which are as follows: (1) investigation, in which research has it's place; (2) analysis of facts and information, (3) interpretation; (4) recommendation, including planning; (5) co-ordination, assisting in control; and (6) facilitation, assisting in organizing and executing. Thus, staff divisions in any organization have a special responsibility for gathering facts

²⁸ Carzo, Jr. and Yanouzas, op. cit., pp. 54.

²⁹ Taylor, op. cit., pp. 98-99.

³⁰ Currier Davis, Fundamentals of Top Management, New York; Harper and Brothers, 1951, p. 390.

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upon which decisions on appropriate actions may be based. In gathering the facts, the staff members may be engaged with the above duties.

"Staff members may frequently perform, throughout an entire organization certain functions requiring special technical competence. Thus, for example, the employee relations division, as a staff division, may give selective tests and appraise the results even to the extent of screening all applicants and rejecting those who do not appear promising. This and other similar functions are performed by staff divisions as a specialized service for the whole organization."³¹

4. Staff Relationships

The relationships between staff divisions and operating units in an organization depend on the staff duties emphasized above. The relations of a staff member, whose duty is mainly to provide technical assistance and advice by securing relevant information or auditing performances, with an operating manager will be quite different from those with his supervisor. Newman and Summer³² in their analysis identify several features of normal staff relationships as follows:

³¹ Yoder, op. cit., p. 146.

³² Newman and Summer, op. cit., pp. 83-84.

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1. A staff man is primarily a representative of his boss. He does things that the boss would do if the latter had the necessary time and ability. He is an extension of the boss's personality, advising, investigating, imagining, encouraging, and following up on matters in his particular sphere. His position gives a staff man stature, and it also imposes on him an obligation not to misrepresent the boss.

2. A staff man must rely heavily on persuasion to get his ideas put into effect. Lacking the power of command, he must build confidence in his opinions and he must be sufficiently sensitive to the problems of those he would influence to win their acceptance of his proposals.

3. A staff man must be prepared to submerge his own personality and his own desire for glory. He must be an ardent team worker, recognizing that his boss or some other operating executive will get credit for carrying the ball.

Within a staff division or unit there is usually a subordinate and supervisor or "line relationships". These relationships are not different than those in operating units. The supervisor assigns duties, delegates authorities and responsibilities to each staff man under his command in the same manner as an operating executive does.

A staff assistant or member of a staff division can only assist or advise the operating executive in technical matters, audit performances and make his recommendations. He can not give

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or issue orders to put his ideas or plans into action. It is the operating executive who gives orders to his subordinates. Hence, the operating executive is not responsible to implement the ideas of the staff man. He may or may not give directives to line-men according to the proposals of a staff. It is up to him to decide whether to accept or reject the counsel of a staff man.

However, this case is not always true. A staff man, due to his "expert status" in the organization desires most of the time that his ideas be accepted and transmitted by the line executive down the chain of command. Also, the individuals in the line are inclined to accept, rather than reject, the advice of a staff specialist "because they regard him as a technical expert!"³³

It is quite natural that an engineer, accountant, lawyer, psychologist or economist possess professional knowledge, and it is more likely these men will desire their ideas or proposals be influential or "authoritative".³⁴

"Unless an operating executive feels that he, too, is an expert in that field, he probably will give careful consideration to the opinion of a man who speaks with the authority of knowledge."

Skill in presenting ideas and winning acceptance for them is still another reason why staff men are likely to be influential.

³³ Ibid, p. 84.

³⁴ Newman and Summer, op. cit., p. 85.

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Perhaps a more subtle source of influence is potential backing by a senior operating executive. If men down the line believe that advice they have rejected is bound to return as a command, they often conclude that it is wiser to take the advice in the first place. Business etiquette usually requires that a staff man present a recommendation turned down by an executive at one level to that man's immediate supervisor before he carries it on up the line. In a large enterprise, several echelons of staff and operating executives may be involved in a discussion until the matter under consideration finally reaches a top administrator for decision. If it is clear that the staff is going to win an argument sooner or later, resistance is likely to vanish. Conversely, a staff man soon learns when and how far he can put a particular point."³⁵

Also, in some enterprises the "normal staff-line relationship" is not often seen or violated with the existence of widespread informal communication, customs, attitudes, beliefs and personal conduct and with the grant of a functional authority to a staff assistant or specialist.

The grant of a functional authority is being practiced by some business firms (small, medium and large) due to the fact that either the top and the operating executives cannot handle technical problems by themselves because of complexity and/or increase

³⁵ Ibid, p. 85.

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in the volume of work or they lack professional competence. For example, an engineer can give direct orders to an operating personnel without asking to his boss or advising the operating executive.

If this approach could be analyzed from a behavioral point of view certain problems will arise. "When several different staff men have functional authority, even in more narrow areas, there is a possibility that they will over burden operating executives or issue conflicting instructions to them. If a company extensively grants functional authority to staff men, the practice tends to undermine the status of operating executives in the eyes of their subordinates. Not the least of the difficulties is the consequent ambiguity of accountability; when something goes wrong, is the fault of one or more of the staff planners or is it due to inept supervision. These difficulties arise from the indiscriminate use of a delicate arrangement."³⁶

From the statements above it can be concluded that a business firm must not extensively grant functional authority to staff men. Also, while granting a functional authority to one or more staffmen it must take into account the difficulties that will arise in practice so that necessary arrangements can be made for their elimination.

³⁶ Ibid, p. 89.

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Another important thing is that a business firm must be able to determine the limit of functional authority in the organization in order to run the operations smoothly.

Therefore, the best thing would be to determine when and under what conditions functional authority must be granted to a staffman. Newman³⁷ explains that at least two out of three of the below conditions should always exist, before such an authority is granted to a staffman:

- 1 - Only a minor aspect of the total operating job is covered.
- 2 - Technical or specialized knowledge of a type not possessed by the operating executives is needed.
- 3 - Uniformity, or at least consistency, of action, in several operating units is essential.

5. The Need for the Staff Assistant and Staff Specialists

Dale³⁸ in his Research Report points out that the need for staff assistants or specialists arises within those firms employing (50 - 300) and (100 - 400) workers. These are usually the fourth and fifth stages of company growth where the organizational problems may be seen for the first time. These two stages identify the small firm, medium-sized firm and the transition

³⁷ Ibid., p. 89

³⁸ Dale, op. cit., pp. 61 - 83.

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period between the two. At these growth patterns, due to increase in the volume of activities, the small and/or medium-sized firm will be in need of planning in order to deal with growing personnel, production, marketing and finance problems.

The president or the top executive of either a small or medium sized firm, no matter how competent he is, will find it difficult to handle all the magnifying problems alone. Thus, to decrease the burden of the executive(s), some firms use "staff assistants" to work "under the wing" of the boss, and furnish his chief with information and recommendations which the latter is free to use as he pleases.³⁹

However, some small and medium sized firms, instead of using staff assistants, utilize either part-time or full-time staff specialists to deal with accounting, book-keeping, auditing, credit, finance, marketing, and production problems. Especially, small sized firms in a transition period and medium sized firms rely heavily on outside specialists. Large firms, on the other hand, hire full-time specialists to engage with various problems occurring frequently.

Although, the size of the firm and complexity of the problems that arise plays a prominent role in determining the degree and extent of staff utilization; the nature and competence of per-

³⁹ Ibid, p. 87.

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sonnel being employed is another determinant factor which must be considered.

6. Committee Systems

As the size of the firm increases the duties to be delegated become even more complex where an executive will not be able to accomplish these duties as a whole without co-ordination and integration of diverse ideas. Thus it becomes necessary to hold formal and informal meetings with members of each unit to discuss the problems, secure information about way of conduct.

Before entering into a discussion of the use of committee systems in firms, it would be right to consider the major advantages and disadvantages of committees. Dale⁴⁰ in his research report explains the major advantages of a committee as follows:

1 - It offers consultative supervision. This results in uniformity of direction throughout the organization.

2 - It helps to provide co-ordination of long-term and short-term programs toward established objectives.

3 - It allows for flexibility in emergency situations without interference with basic schedules.

4 - It provides broader experience for executives and greater interchangeability of management personnel.

⁴⁰ Dale, op. cit., p. 85.

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Besides the advantages, most of the critics of some authorities of traditional theory had been centered around limitations of committees. "Committees are discontinuous, and action must wait until the committee is convened. There is a tendency in committee meetings to fail to consider the relevant factors, to find junior members attempting to impress their superiors, to jump to conclusions without a factual study of the questions, to have decisions forced on the committee by a strong chairman, and to encourage irresponsibility among committee members."⁴¹

Some of the critics in the literature consider that committees are often used as a substitute for good management. If the objectives of a firm are not clearly defined, a committee may be appointed as a substitute for management decision on objectives. Sometimes committees may be formed to let the individual be responsible for a decision rather than holding him responsible for decision making. A committee may be appointed to avoid the granting of "excessive" power to an executive.⁴²

"Of the various mechanisms of management, none is controversial than committees. Some companies are intolerant on the subject; others over do the idea. Committees are charged with wasting time, slowing down action, stifling individual initiative,

⁴¹ Urwick, The Elements of Administration, New York, Harper, 1943
p. 71.

⁴² Ibid., pp. 73-74.

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producing compromises rather than clean-cut decisions, and lessening the sense of individual responsibility."⁴³

6. 1. Use of Committees in Firms

Group decision making by the use of committees is being practiced extensively by large and medium-sized firms, and in a limited extent by small firms, because of the size and magnitude of work.

Committees of various types e.g., co-ordinating committees, personnel committee, appropriations committee, products committee, wage and salary committee, pension and benefits committee, special committees are mostly seen in large firms for the purpose of obtaining the type of co-ordination and control required in particular fields which will assist the company objectives as a whole.⁴⁴

In a very small firm having less than fifty employees there may not be a need for committee organization if there is clear and specific delegation of authorities and responsibilities and if there is a clear definition of functions.⁴⁵ However, these organizational concepts are usually neglected in smaller firms.

⁴³ Paul E. Holden, Lounsbury S. Fish and Hubert L. Smith, Top-Management Organization and Control, New York, Toronto, London McGraw-Hill Book Company Inc., 1951, p. 59.

⁴⁴ Ibid., pp. 64-73.

⁴⁵ James D. Mooney, "Organizing the Small Plant", Small Plant Management, ed. by Edward H. Hempel, New York, McGraw-Hill, 1950, p. 152.

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The decision maker is the president or the owner-manager. Even though there might be a need for group decision-making, "it would be unusual for the president to delgate decision-making power to a committee. It is true that in minor matters he might be willing to delegate such authority to a committee, but if such decisions are unimportant, there is no need for committees, except as an aid to communication".⁴⁶

Therefore, in the smaller firm, committees may be used for the communication and co-ordination of activities rather than group decision-making. Group decision-making is usually required during growth of a small firm, that is when the size of the firm reaches one hundred or more employees.⁴⁷ At later stages, increase in the scope of activities creates the need to establish several committees for strict co-ordination of management functions and also for determination of policies and objectives.

Especially, medium and large size firms rely on committees, these committees are either formal or informal in nature. Informal committees, are often seen in the early stages of a medium sized firm. Large firms, on the other hand, use formal committees. This case is illustrated by Figures 7 and 8.

46 Basil, op. cit., p. 57.

47 Dale, op. cit., p. 22.

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Figure 7 shows the formal (planning) and informal (discipline and works) committees that were established by the ABC Industries, Inc., a medium size metal manufacturing firm having around 500 employees.

Figure 8 illustrates the major formal committees (finance, executive and interdivisional relations) at General Motors Corporation in the year 1924.

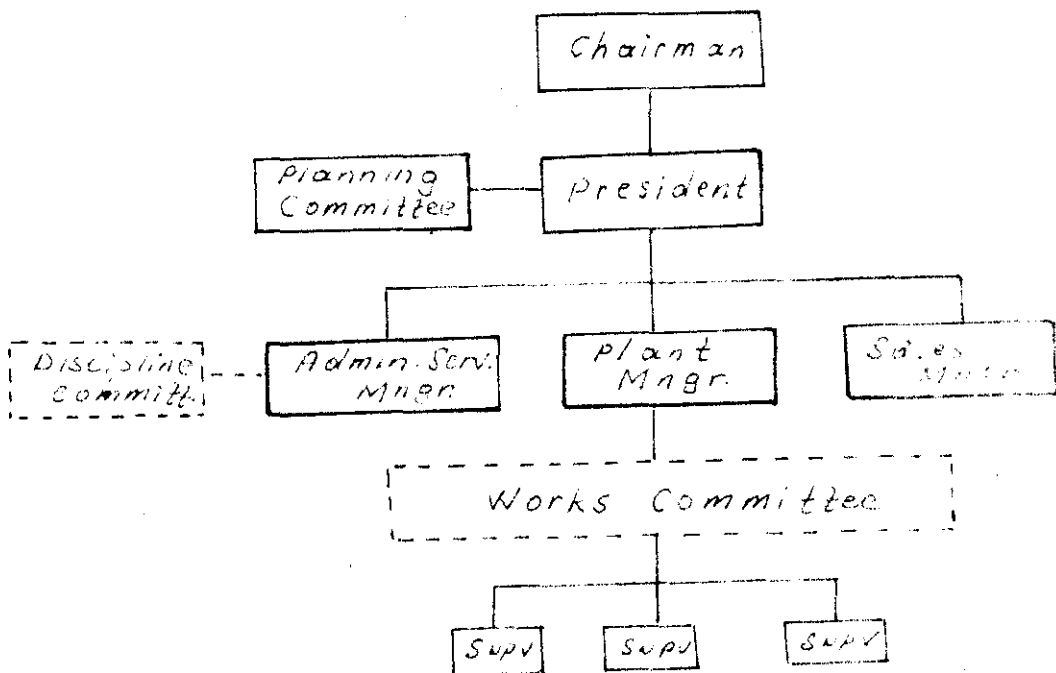


FIGURE 7: - Committees at ABC Industries, Inc., (A medium size firm having 450-500 employees)

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CH 3 (34) Fig 7

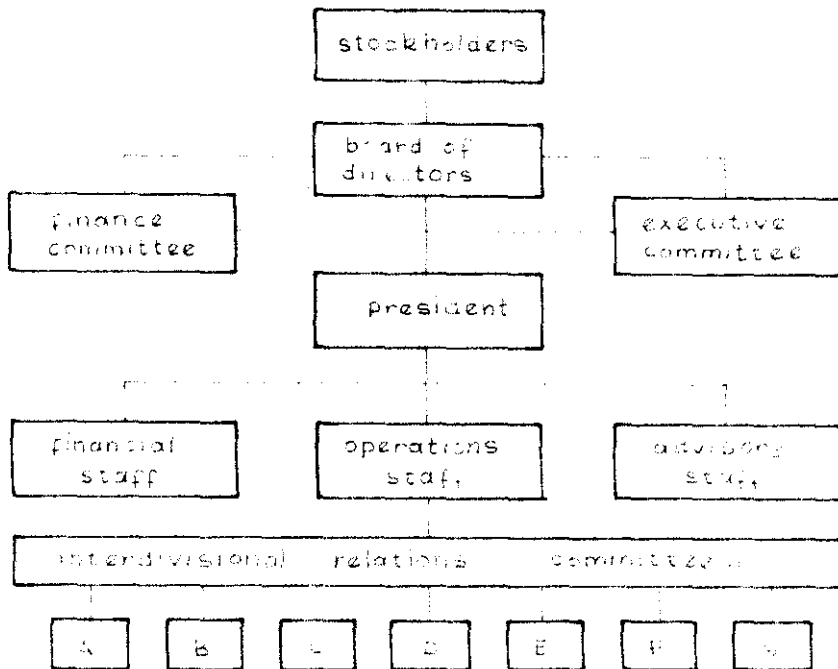


FIGURE 8: - Major Committees at General Motors Corporation, 1924
(From Alfred D. Chandler, Jr. Strategy and Structure, Cambridge, The M. I. T. Press, 1962, p. 159)

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F. THE PLANNING FUNCTION AND PROCESS

Planning is a basic management function. In any firm production, marketing, finance and personnel activities have to be planned for the accomplishment of the overall objectives. Without planning, a firm will not be able to co-ordinate and control its activities; it will disintegrate and fail within a short time.

Planning is an essential duty of managers. Competent managers in an organization must be planners of the prospective courses of actions. The planning function becomes more significant and even complicated as the volume of work increases. For example, in a rather small firm (where the scope of work is limited) short-term planning may include only maintaining sufficient man-power, semi-furnished or raw materials. However, when the company expands by having additional production departments, even short-term planning becomes more complex. On the other hand, there are also financial and manpower training and development considerations which ought to be evaluated in long-term planning. Thus, managers' planning responsibility becomes, say, twice as important.

"The process of planning covers a wide range of activities all the way from initially sensing that something needs doing to firmly deciding who does what when. Planning is much broader than compiling and analyzing information, or dreaming of ideas of what might be done. It is more than logic or imagination or judgment.

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It is a combination of all these that culminates a decision - a decision about what should be done."⁴⁸ Therefore, all planners are involved in decision-making while looking ahead and determining future courses of action.

1. Decision-making Process

Effective planning must be based on rational decision-making which involves (1) careful identification and clarification of the problem, (2) selection of alternative solutions, (3) analysis and comparison of alternatives, and (4) selection of plan to follow.⁴⁹

2. Decision-Making Process in an Organization System

The decision-making process takes place at different levels in an organization. It may involve one or more individuals. Information usually flows to a decision center or point where the actual processing is done. This is illustrated in Figure 9.

In a dynamic organization system the process may be continuous or quasicontinuous depending upon the flow rate of information from one level to another.

⁴⁸ Newman and Summer, op. cit., pp. 253.

⁴⁹ Ibid., p. 261.

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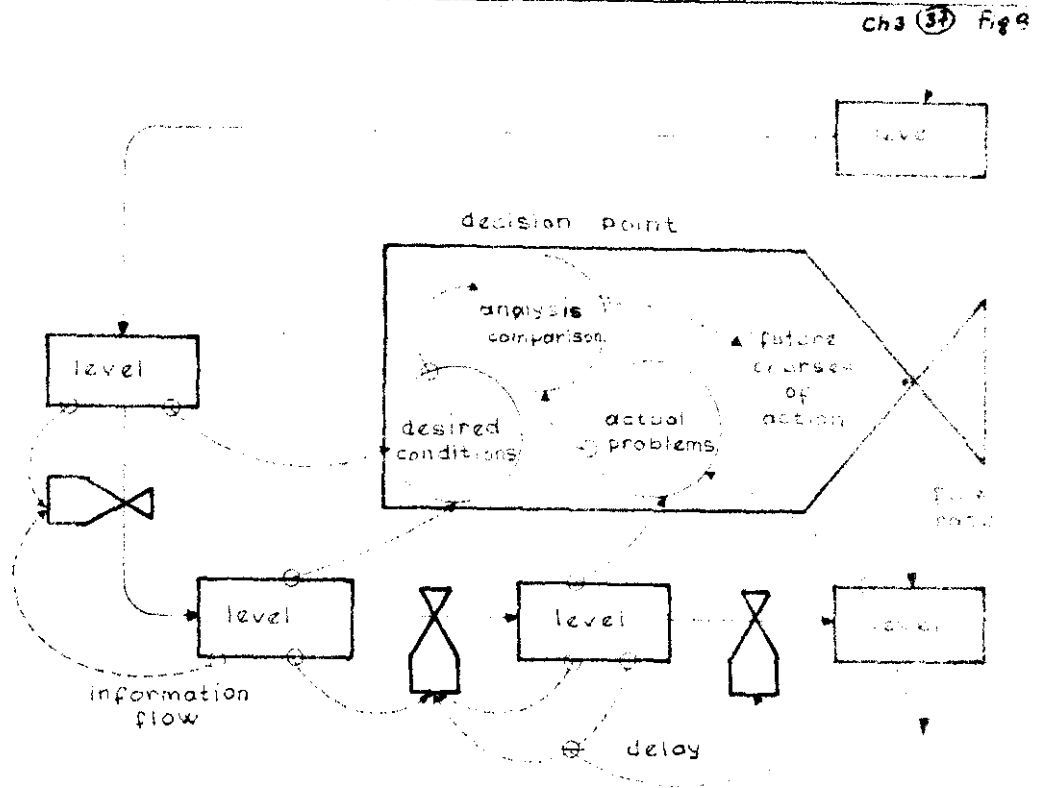


FIGURE 9: - The Decision-Making Process in an Organization System
(From J. Forrester, Industrial Dynamics, Cambridge,
The M. I. T. Press, 1961, Ch. 10.)

As the small firm approaches to medium size, the policy decisions are made by either staff assistants or staff specialists and operating decisions by line executives.

In a medium size firm having more than five hundred employees, decision making process becomes the responsibility of both line managers and staff specialists. Line managers usually carry out the operating policies, plans and programs, whereas staff specialists solely deal with the formulation of company objectives.

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3. Decision-Making in Firms

In a small firm the chief executive or the president has the responsibility for both operating and policy decisions. He has to devote some of his time to policy decisions and the rest for operating decisions. This is possible in the early stages of growth. When the size of the firm reaches ten employees the president of the small firm must delegate some of his decision-making responsibilities, especially operational ones, to his immediate subordinate. When the firm has from fifty to hundred employees, the president must delegate his operating decisions to a specialist or line executive, and keep himself responsible for policy decisions.⁵⁰

Even at this stage of growth the chief executive could have a staff assistant to collect and analyze information needed for designing policies or plans, and to assist him in decision making.

In some small firms several staff specialists can draw up policies, programs, plans and procedures for the chief executive. Although, the actual need for a staff specialist arises when a firm employs a hundred to four hundred employees. This need also might be felt in the earlier stages as well, depending upon management structure.

⁵⁰ Dale, op. cit., p. 22.

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short and long-term plans and determination of positive courses of action; even assist or prepare operating policies for the line executives if such a functional authority is granted to them.

Recent surveys show also that in some medium sized companies overall policies are being formulated by the Management Committees composed of line executives and staff specialists. Such a formal system is seen among firms where individual executives and specialists face great difficulties in formulating policies because of the higher responsibilities levied on them. Thus, establishment of a Management Committee reduces and also narrows the span of control of the chief executive.⁵¹

At later stages of growth medium-size firms depend extensively on policy-making committees such as executive, finance and salary committees. This is normally the transition from medium to large size where increase in volume of work has also increased the number of decisions to be made.

Similarly, a large firm in the early periods of growth uses also policy-making committees. However, in later stages, depending on the size of the activities, delegates decision-making to reduce the responsibility of the top executives. Delegation of decision-making (decentralization) is mostly exercised by larger companies having different operating divisions or plants at sepa-

⁵¹ Dale, op. cit., p. 84.

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rate geographic areas.⁵² Companies using decentralization concept have different committees whose members are the directors of the board and top executives. Top Management policy of the company is formulated by these committees. Information regarding the top management policies is fed by the policy groups (consists of staff specialists and top operating executives) through an administration committee.⁵³

4. Participation in Decision Making

Manager or chief executive of a firm may or may not use participation in decision making. That is, he may call his subordinates for a face-to-face discussion of a problem before formulating the operating policies and plans or simply make the plans alone. Sometimes he may draw the ideas of staff specialists or other executives.

For example, the chief executive of a small firm, because of the nature of his work, or professional background, may be in need of individual opinions to formulate the production policy. Thus, he may call his subordinates, e.g., staff assistant, production supervisor and marketing supervisor to a decision center to discuss the production problems with them before designing the production policy. This is illustrated by Figure 10.

⁵² Ibid, p. 98.

⁵³ Dale, op. cit., p. 101.

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The degree of participation in any organization depends on (1) how well the authorities and responsibilities are delegated (2) how competent an executive is, (3) how much time can an executive allocate for discussion, (4) how much can an executive trust to his employees, (5) how completely a subordinate can carry each phase of the plan, (6) how co-operative and capable a subordinate is, (7) how complex the activities are in the firm, and (8) nature of plans to be drawn.⁵⁴

Ch 3 (42) Fig 10

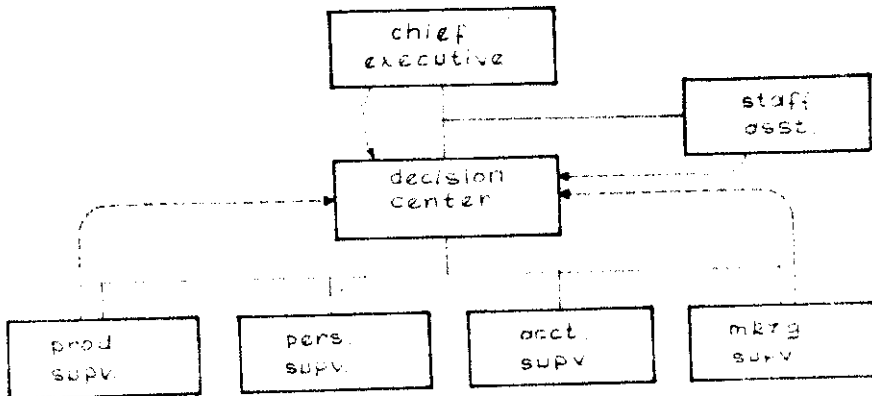


FIGURE 10: - Participation in Decision Making

⁵⁴ Newman, op. cit., pp. 437-440.

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G. LEADERSHIP

Leadership is also a vital function of management which has its roots in close man-to-man relationships. However, it is not simply close man-to-man contact; it involves certain characteristics which ought to be analyzed.

At this moment, it will be rather significant to emphasize also that the word leadership or leading implies different meanings to different persons. Therefore, a precise definitive approach to the word leadership is rather difficult. Although, so many articles, books, pamphlets, etc., have been written about "leadership" the majority of the traditional literature describes rather than defining it under the light of analytical approach. Hence, it is also hard to tell or identify the basic determinants of leadership.

Newman⁵⁵ explains that a manager "leads" by personally and actively working with his subordinates for the purpose of guiding and motivating their behavior to fit the objectives, plans and procedures that have been established and understanding the feelings of his subordinates and the problems they face as they translate plans into completed actions. See Figure 11.

To achieve the goals, objectives or plans of an enterprise efficiently and effectively he must be a "good leader", possessing more or less the following qualities which are defended by several

⁵⁵ Newman, op. cit., p. 477.

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writers:

- 1 - He must communicate with his subordinates and others.
- 2 - He must generate enthusiasm.
- 3 - He must resolve frictions among workers and subordinates by positive action.
- 4 - He must take the disciplinary action whenever needed.
- 5 - He must understand the feelings and problems of his subordinates and others.
- 6 - He must recognize well done work.
- 7 - He must consider the facts.
- 8 - He must accept different view points.
- 9 - He must be decisive and creative.
- 10 - He must delegate responsibility for the execution of the plans.
- 11 - He must have ability to think objectively.
- 12 - He must have a well adjusted personality.
- 13 - He must be persuasive.
- 14 - He must be vital.
- 15 - He must have endurance.⁵⁶

⁵⁶ Newman, op. cit., pp. 478-490; E.F.L. Brech, etd. The Principles and Practice of Management, Aylesbury and Slough, Hazel Watson and Viney Ltd., 1963, pp. 30, 556; Basil, op. cit., p. 21.

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1. Elements of Leadership

Managerial leadership, involves the following basic elements: (1) bases, (2) activities, and (3) aims. These elements are mutually dependent. That is, one element can not function without the existence of the other elements.

The bases are the yardsticks or the means which monitor the activities. They are divided into five sub-elements: (1) objectives; (2) organization system; (3) work procedures; (4) control systems, and (5) communication systems.

Activities are the operations which need to be performed for the accomplishment of the objective or aims. The activities have also four sub-elements: (1) co-ordinate, (2) direct, (3) discipline, and (4) communicate.

Further, aims are the means to an end, which is the execution of plans and policies. The sub-elements are (1) guide and motivate, (2) solve problems, and (3) understand feelings. The basic elements and their relation with one another is depicted in Figure 11.

2. Leadership in Firms

The boss or the chief executive of a small enterprise possesses the qualities of a "poor leader" by many writers and observers because of his self centered decision making and follow up, proud attitude, strong confidence, and desire to do things in

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his own way.

Delegation of authorities and responsibilities is one of the important determinants of good leadership which is either missing or applied in a limited sense in most of the small firms.

CHS (99) Fig 11

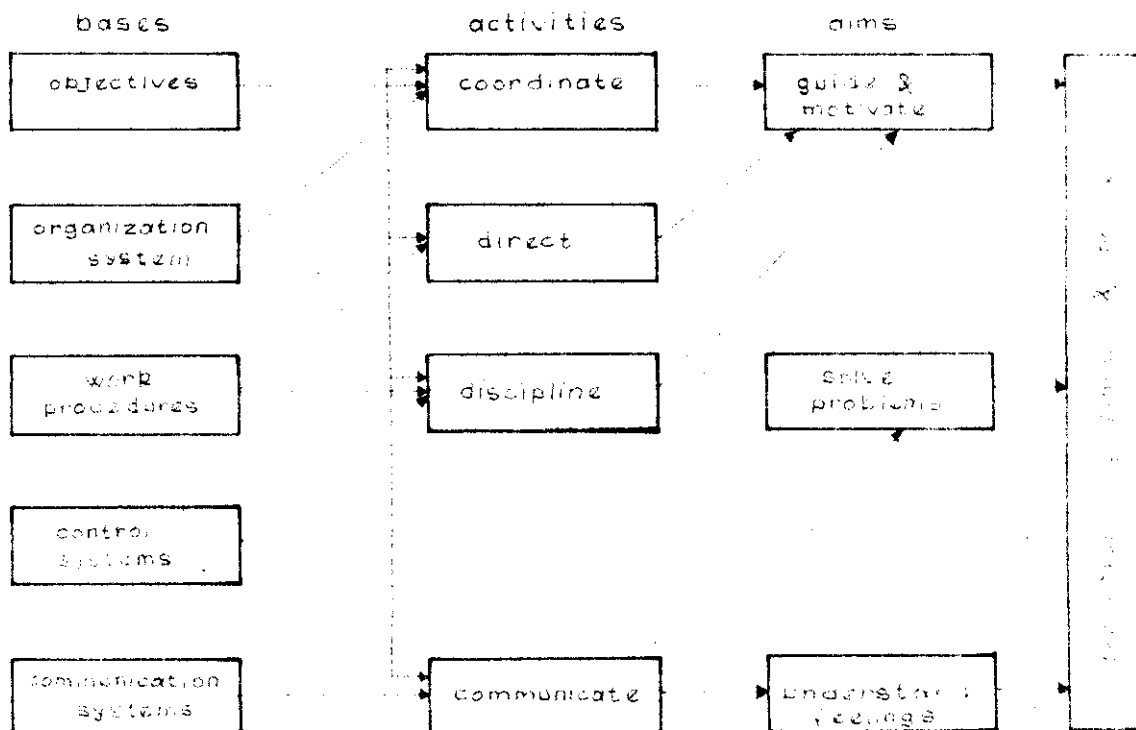


FIGURE 11: - Basic Elements of Leadership

Similarly, lack of formal controls and planning lowers the leadership qualities of the "boss" or executive of the small enterprise.

As the small firm grows in size where delegation of more

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management functions become inevitable, poor leadership qualities tend to disappear.

Good leadership is seen in medium-size firms where there is broad delegation of authorities and tasks. Managers "as leaders" recognize group participation, communicate with their subordinates, co-ordinate plans, resolve conflicts, evaluate performances objectively, generate good-will, try to understand the problems and feelings of others, take positive formal control actions whenever needed.

In a large firm existence of proper delegation with clear cut duties to be performed, broad planning and control functions integrates all qualities of good leadership. This is due to mainly strong management guidance which is either lacking or short in small and medium firms.

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H. CONTROL

Control is also another essential function of management which has an integral place among the overall organization structure of a firm.

Control in business can be defined as "guiding and regulating the activities of a business or any of its parts by means of management judgment, decision and action for the purpose of attaining agreed objectives".⁵⁷

Control is a sub-system of the total organization system which depends and contributes to other basic functions, e.g., organizing, planning and leading.⁵⁸ Lack of or improper operation of these functions will effect the control process in the sense that; their absence will make the control concept meaningless, and their irregular operation or incomplete existence will bolster the actions of control in evaluating performances and in taking corrective actions.

1. The Control Process

The process involves three elements which are: (1) standards of performance, (2) comparison and evaluation of actual

⁵⁷ Brech, op. cit., pp. 637-38.

⁵⁸ Newman, op. cit., p. 559.

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results, and (3) corrective action.

These elements are also integral parts; and no matter what is being controlled they have to exist in order for control process to be effective.⁵⁹

Standards of performance are the yardsticks established for the purpose of measuring the actual results that are achieved through operations. Comparison involves the process of measuring the actual results with pre-determined standards and evaluating to see how well the desired objectives are attained. If there is any deviation from the desired objectives, then corrective action enters the process to shape the activities according to the desired standards.

2. Effective Means of Control

Control means are of numerous types which vary in character depending upon the organization structure of firms. Effective means of control, however, is achieved through comprehensive plans which prescribes major activities with clear-cut delegation of authorities and responsibilities.

"Each plan of control embraces the following elements: an objective establishing what is desired to accomplish; procedure specifying how, when and by whom the plan is to be executed; cri-

⁵⁹ Ibid., p. 562; Brech, op. cit., pp. 637-639.

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teria as to what constitutes good performance; and appraisal as to how well it was done.

It is properly the function of a capable staff agency, sometimes in conjunction with a well-designed committee, to formulate a comprehensive plan of control over each activity; to guide, co-ordinate, and administer its use; and to make sure that the desired objectives are realized."⁶⁰

The means of control that are extensively used in most of the business enterprises are as follows:

- 1 - Control of policies
- 2 - Control of organization
- 3 - Control of working capital and disposable funds.
- 4 - Control of key personnel.
- 5 - Control of wages and salaries.
- 6 - Control of costs.
- 7 - Control of methods and procedures.
- 8 - Control of services.
- 9 - Control of marketing activities.
- 10 - Control of research and development.
- 11 - Control of production.
- 12 - Control of public relations.
- 13 - Control of foreign operations.
- 14 - Control of budgets.

⁶⁰ Holden, et al, op. cit., pp. 8-9.

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15 - Control of records.⁶¹

3. Control Systems in Firms

In a small firm planned control does not exist because personal control is dominant. The chief executive has centered all the means within the boundaries of his post. He controls production, personnel, finance and marketing activities in his own way with minor assistance from his subordinates.

No formal performance records are kept. Functional activities are not even planned in detail. There is no strict control on expenses and cash flow. Even no policy formulation exists. The actual control means are rather roughly shaped methods.

The formal control systems enter into the picture during the growth stages where the president or owner - manager recognizes delegation in order to accomplish the magnifying activities. Effective control means, e.g., cost, production, financial, records, personnel, policies, marketing tend to be well-hammered in the later stages; that is, when the company approaches to medium size.

Control systems of various kinds - which are evolved through formal detailed planning - are being seen to a large extent in large firms because other management processes - organizing, planning, leadership - exist at the same time in precise and

⁶¹ Holden, op. cit., pp. 9-12; Brech, op. cit., pp. 686-704, 741-766; Basil, op. cit., pp. 65-76.

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clear forms. Thus, they contribute in equal terms to the preparation and execution of control means which in return contributes to them.

4. Relations of Control Systems with Other Systems

Company organization system is composed of several sub-systems, namely, policy, control and intermediate organization. These are further divided into several sub-systems which are linked together.

a. Policy System. The function of this sub-system is to adjust basic policies of the total organization system to correlated information which flows from control systems.

b. Intermediate Organization System. The main function of this sub-system is to provide goods and services to other sub-systems of the organization and the environment.

c. Control System. The function of the control system is simply information transformation.

The Control Systems and other sub-systems of the organization function in close relation with the environment systems. There is an information flow to and from each sub-system, and environment systems. This is illustrated by Figure 12.

As shown in the figure control systems receive information from policy systems, environment systems and intermediate systems and feeds back control information after transformation

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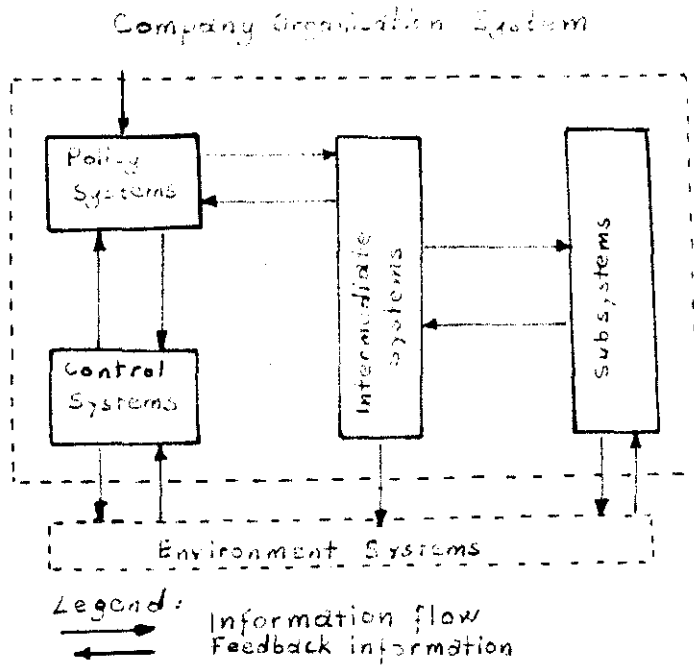


FIGURE 12: - Relations of Control Systems with Other Systems

process is completed.

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five or six employees. The chief executive, because of his professional background, of his personality, of his burden, and also because of the nature of work to be accomplished may delegate some of his responsibilities to his foremen or supervisors.

Span of control denotes the size of the supervisory unit. The size changes from firm to firm. In a small firm the span of control of the chief executive is usually wide due to absence of delegation. In medium and large size firms the size of control may vary from 5 - 10 depending upon: (1) time devoted to supervision, (2) variety of activities, (3) ability of subordinates and (4) degree of delegation. This shows that span of control problems are related with growth and environmental factors.

Informal organization is seen almost in every firm. Especially, it is the cornerstone of most small firms. In medium and large size firms, this is seen in a restricted manner. Growth and environmental factors have rather an appreciable effect on this problem. Increase in the number of tasks to be performed, inability of supervisors to control their subordinates, lack of individual status, rules and regulations, etc., forces the individuals in an organization to follow informal channels.

Formal organization problems arise when the size of the firm approaches one hundred employees. This is usually the stage where additional levels of supervision are created to delegate more management functions to subordinates.

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Although the executive burden problem arises at later stages of growth, when the size of the firm reaches fifty employees, the need for a staff specialist or assistant may be felt also in the early stages of a small firm having 10-25 employees. The executive or the president of a very small firm, because of his knowledge and experience, might be in need of a staff assistant or specialist to delegate some of his tasks.

The need for a committee arises when the volume of activities increases, and when delegation becomes more complex. In a small firm employing 10-50 employees there may not be a need for a committee system if delegation is recognized by the chief executive. However, this principle is often neglected by the president

Planning also arises with growth. It becomes more significant and even complicated as the volume of work increases. Besides, the nature of activities to be performed has considerable effect in the rise of this problem.

Group decision making is felt at later stages of growth when the company has 100-500 employees. Environmental factors also play a major role in the creation of this problem. In a small firm employing 25-50 employees the nature of the work, working conditions and individuals, etc., might create the need for group decision making.

Leadership problems occur almost in any firm. Environmental factors have the major effect in their creation. Growth

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I. SUMMARY AND RESULTS

In this chapter organizational problems that appear in small, medium and large size firms are discussed in lieu of the basic principles, e.g., organizing, planning, directing and control. Also, the role of size, growth and environmental factors are examined in detail.

The organizing process includes basic principles such as specialization, delegation, span of control, formal and informal organization.

Specialization may or may not exist in business firms of any size. Company size has no effect on specialization problems. Analysis shows that specialization is a problem which is related with growth and environmental factors. The need for specialization may arise in a very small firm having about ten employees because of the environmental factors such as nature of work being performed and the type of employees performing the work. However, the actual need arises with growth. This is, as the volume of work and the number of decisions and actions to be taken increases, division of work becomes necessary.

Delegation becomes acute when a firm has sufficient employees to assign functions and responsibilities to subordinates. Therefore, delegation is a major problem which arises with growth. Also, the need for delegation might be felt in a small firm having

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might have some influence.

Formal control problems are felt with growth. In a very small firm having 3 - 10 employees, it is not necessary to have planned controls. Informal controls might be sufficient. But when the size of the firm increases formal control problems enter into the picture. The occurrence of this problem in medium and large firms is mainly due to environmental factors.

Finally, from the overall analysis it can be concluded that organizational problems are related with size, growth and environmental factors. The degree of influence of each factor changes from firm to firm. In the next chapter the effect of organizational factors on management problems will be examined.

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PART II

A CRITICAL ANALYSIS OF THE

CAUSES AND EFFECTS OF

ORGANIZATIONAL PROBLEMS

- THEORETICAL APPROACH

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CHAPTER 4

THE EFFECTS OF ORGANIZATIONAL FACTORS IN MANAGEMENT PROBLEMS "A SYSTEMS APPROACH"

A. PURPOSE

In this chapter several management problems which influence, especially, the operations of Turkish industrial firms will be discussed briefly to verify the below hypothesis:

$$M_p = f(O_p, F_p, P_p \dots)$$

where:

M_p = Management problems

O_p = Organizational problems

F_p = Financial problems

P_p = Personnel problems

The above mathematical statement means that: management problems are a function of organizational problems, financial problems, personnel problems, etc.

B. SYSTEM CONCEPT

A company system is composed of several elements or sub-

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systems, e.g., policy formulation, control and intermediate organization, etc., which function in unity.

To have a brief idea about the sub-systems let us analyze Figure 1 on the next page. In this figure the relation of sub-systems with each other, and with the environment systems are shown with thin and thick arrows. The former denotes to the information flow and the latter to the product or material flow.

For example, intermediate organization systems receive policy information from policy formulating systems, control information from control systems and service information from sub-systems, and also sends feedback and other information to sub-systems and environment systems.

Similarly, the control systems, whose major function is information transformation, receive policy information from policy formulating systems, performance information from intermediate organization systems, general information from environment systems and transforms them in lieu of their basic functions which are: (a) information processing, (b) analysis and forecasting, (c) decision making, (d) planning and control. After transformation process is completed they feedback correlated information to policy formulating systems and the control information to intermediate organization systems. The organization systems in return send this information to subsystems.

This indicates that there is cyclical information flow to

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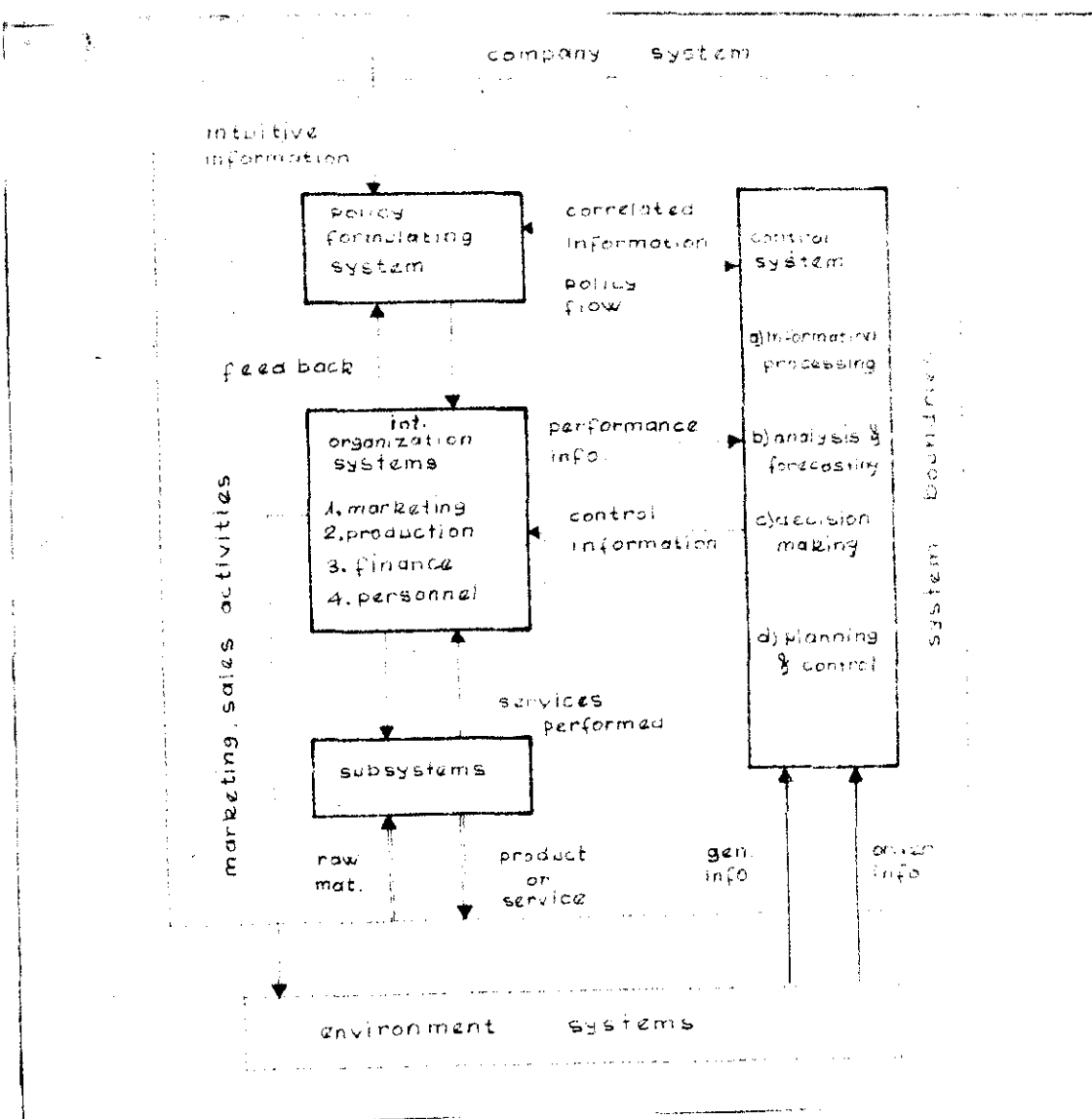


FIGURE 1: - The Company System and Interaction among Sub-systems (From E. S. Buffa, Readings in Production and Operations Management, N.Y., London, Sydney: John Wiley and Sons, Inc., 1966, p. 40.)

and from each sub-system which function inclose integrity.

However, this smooth flow of information or materials can not always be achieved because of the short comings in the

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operations of one or two sub-systems.

Since each sub-system functions in unity, improper operation of one element distorts the operations of other elements of the total system. Hence, a specific problem of one element becomes the problem of the overall system, which involves several unified problems.

For example, production problems might have their roots in personnel, finance and marketing. That is, production capacity may be low because of labor shortage. This might also be due to financial and marketing problems, e.g., investment difficulties, shortage of credits or of working capital, high operating costs, low sales volume, less profit.,.

This shows that there is not any particular problem which is related with one cause, and which affects only one element of the total system. Instead, there are problems of interrelated causes which have chain effect on each element of the system.

However, difficulty will arise in identifying and examining the causes of the complicated problems of the overall system. For this reason it is necessary to analyze each element of the system. While doing so, total operation of the system must be kept in mind.

C. SYSTEM PROBLEMS

System problems, e.g., policy formulation, control, pro-

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duction, finance, personnel, marketing, etc., usually arise from improper operation of the sub-systems or elements.

Improper operation of the sub-systems might be due to several interrelated causes such as physical, moral, economical and organizational which require a thorough investigation for their proper identification.

However, to deal with numerous problems and causes will be a time consuming and costly process. Besides, the results obtained will not be a satisfactory one. Instead, most influential problems and factors must be considered.

Therefore, here only intermediate sub-system problems will be given proper attention to simplify our analysis.

1. Production Problems. High operating costs, low output and inferior quality are the major production problems which affects the operations of most Turkish firms.

High operating costs are generally due to: (1) high price of the raw material or semi-finished product and auxiliary parts, (2) low production (machine breakdowns, process and delivery delays) (3) material waste, (4) improper use of production tools and equipment, etc.

Let us focus our attention at high operation costs problem and investigate some of the underlying causes. separately, Raw or semi-finished material and other miscellaneous parts generally

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incur high costs because: (1) the firms depend mainly on one or two suppliers in the vicinity, (2) they do not possess any sound purchasing policy as regards to what amount to buy, from which supplier, when at what price, (3) they do not have consolidated purchase plans involving the arrival date of materials, stock levels, frequency of purchases, etc., and (4) employees who run the purchasing activities are not assigned tasks with clear cut authorities and responsibilities.

This implies that the causes of this production problem are related with organizational problems. If organizational problems would not have been existing then there would be no cause and no effect such as high operation cost problems. Hence, organizational problems are related with management or system problems.

Also, these organizational problems arise from environmental factors: (1) buying habits or customers, (2) inability or incompetence of executive to establish purchasing plans, to assign tasks, and to subordinates to formulate policies and plans to follow, (3) lack or shortage of purchasing knowledge and experience, (4) financial weakness, (5) market conditions, (6) shortage of manpower, etc.

Similarly, frequent machine breakdowns arise because: (1) firms do not establish dynamic machine replacement policy, (2) they do not prepare machine obsolescence plans, (3) they do not have well-shaped maintenance plans, involving what machines are

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to be repaired or overhauled, at what day, what parts will be needed, and who will be assigned to each maintenance task, (4) there is no machine operation rules and regulations, (5) the machines are run by inexperienced operators, and (6) firms usually do not have employee training programs.

Material waste, on the other hand, occurs because - firms do not have any waste control and elimination policies and plans of action regarding how to control material waste, machining operations, worker performance and whom to assign and with what responsibilities.

Further, tools and equipment are improperly used because: (1) firms usually lack rules and regulations or procedures which workers can follow, (2) employees are not trained for use and care of tools and equipment, and (3) they do not have a written policy in regards to when and how tools and equipment will be replaced.

The analysis shows that the two above causes are also related with organizational problems, e.g., planning, delegation and control. Since causes are related with organizational problems, then the same thing can be said for management problems. Hence, as an initial step we can say that $M_p = f(O_p)$.

Now, it is time to examine the causes of these organizational problems. They are mainly related with environmental factors and with growth stage. However, environmental factors do

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have a rather strong influence on the creation of these organizational problems, and also on management problems.

2. Personnel Problems: In general, low morale, too many conflicts and high employee turnover are the essential personnel problems of the firms operating in this country. Especially, most of the firms suffer from high employee turnover because of its direct influence on production efficiencies.

The underlying causes of this problem are rather similar in nature at each business firm although the degree of affect vary extensively.

High turnover, problems occur due to the following: (1) less pay, (2) tasks to be performed are not clearly defined by supervisors and executives, (3) restrictions in delegating authorities and responsibilities, (4) co-ordination and communication between employees is not fully applied, (5) supervisors do not usually trust their subordinates, and (6) works are accomplished under strict command, (7) operating instructions, systems and procedures are not known by the employees, and (8) employees are not treated equally.

These factors have their roots in the below organizational problems: (1) policies and objectives of the business firms are not usually known by the employees, (2) tasks are not assigned without precise definition of authorities and responsibilities, (3) firms do not tend to prepare recruitment and training programs

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including number of employees to be hired, type of work to be assigned, method of training to be followed and time interval of training, etc; (4) they lack well adjusted wage and salary plans, (5) they do not establish operating instructions, systems and procedures to be followed by each employee, and (6) they lack social benefit schemes.

In essence the organizational problems which stimulates the above factors are delegation, planning and leadership. These problems are related with social, financial, and psychological factors.

3. Marketing Problems: Low sales, late product delivery and high prices are the dominant problems which affects the companies profitability.

Low sales volume seems to be the one of the important marketing problems of most manufacturing firms in this country. This problems arises from: (1) high price of the product, (2) decrease in demand, (3) inferior product quality, (4) uneasy payment, (5) lack of advertising and sales promotional activities, and (6) undesired product style.

The price of the products are generally high because firms do not exercise effective means of cost control in their day-to-day operations. Besides, controls are not planned with clear cut objectives.

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Similarly, firms do not clearly define their marketing strategics and policies. Haphazardly determined policies are not diffused throughout the organization. Marketing activities such as marketing and market research, advertising and sales promotion, warehousing and distribution are not based upon formal plans. Tasks are not performed without clear cut objectives. Executives and supervisors who are engaged with marketing operations can not utilize the delegation concept fully.

Furthermore, short of communication and co-ordination between executives and subordinates within the company, and between customers outside yields undesired results. The above problems arise from distorted marketing operations.

Marketing operations would not have been distorted by the above factors if planning, controlling leadership, delegation, co-ordination and communication principles were fully exercised.

These organizational problems are related with growth and environmental factors. Size does not play a very significant role because similar problems occur in small, medium and large size firms.

4. Financial Problems: Turkish business firms are faced with several financial problems, e.g., project investments, credits interest payments, collection of receivables, debt payments, shortage of working capital, etc.

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However, firms are mainly affected by working capital and credit shortage. Shortage of working capital arises from various factors among which we can list the following: (1) customer receivables are not collected on time, (2) short-term projects are usually financed from working capital.

Credit shortage naturally occurs as a result of not having enough outside credits whenever needed. Since most firms run their business on credit basis, it is rather difficult to secure long-term credits that are desired for future investments. Even short term credits are difficult to maintain. Besides some firms because of high interest rates do not even tend to take credits, instead they deplete the cash reserves.

Commercial credit loaning agencies, on the other hand, give credits to the business firms who can guarantee to pay the loaned amount, including the accrued interests, on time. Failure to meet the deadline for the first time will result in discontinuation of credits and company good will.

Failure in credit payments frequently seen among most firms except few large financially strong ones, and they either drop investments or look for other credit sources with even more high interest rates, such as bonds or mortgages.

Further investigation will reveal that these financial problems occur because: (1) firms do not formulate their financial strategies and tactics in a proper manner, (2) individuals who are

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involved in regulating the activities do not possess any knowledge about company policies and objectives, (3) they are usually short of well designed financial plans, e.g., date for collecting receivables, methods and procedures to be followed for cash inflows and outflows, sources that credits are obtained, interest payment dates and priority of loans to be paid, amount of money required for project investments, means and sources of finance, personnel to be engaged, etc., (4) they lack financial controls, control of working capital (cash inflows and outflows), funds, credits and overall expenditures, etc., and (5) they apply basic organizing functions in a very restricted way, e.g., partial delegation of authorities and responsibilities, unbalanced co-ordination and communication, and division of work.

This analysis also reflects that the causes of the financial problems, e.g., working capital and credit shortage have their roots in organizational problems, namely, planning, delegation, controlling, communication and co-ordination.

Like other problems discussed previously, these organizational problems are related also with size, growth and environmental factors. However, growth and environmental factors (financial, social, physical, psychological) have strong influence.

D. SUMMARY AND RESULTS

The purpose of this chapter is to examine the causes of management problems and to verify the hypothesis in question.

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Company system involves several sub-systems or elements, namely, policy formulation, intermediate organization and control, which functions are in close integrity with each other.

Improper operation of one or more elements distorts the operation of the other elements and the total system. Hence, a particular problem of an element becomes the problem of the total system comprising several unified problems related with numerous interrelated causes which have chain effect upon one another.

Inefficient or abnormal operation of the elements might be due to certain factors such as physical, social, psychological, financial, organizational, etc.

Difficulty will generally arise in investigating the causes of the complicated system problems. Therefore, it is necessary to analyze each element of the system.

For the verification of the hypothesis only one sub-system is taken into consideration to simplify our analysis.

Intermediate organization sub-system problems are: (1) production, (2) personnel, (3) marketing, and (4) finance.

The major production problems which effect the operations of most Turkish firms are high operation costs, low output and inferior quality.

High operation costs arise from high price of the raw materials or parts, low production, material waste and improper

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use of tools and equipment.

Most influential personnel problem is the high turnover problem. This problem is generally due to less pay, vague definition of tasks, restrictions in delegation, strict commands of executives, unfair treatment of employees, distrustful or reluctant attitudes of supervisors, shortage of communication, and systems and procedures.

Among the major marketing problems, emphasis can be put on low sales, late product delivery and high prices of the goods or products. Although, three of these problems have rather appreciable affects on operations of the business firms, the majority of the influence comes from low sales.

Low sales problem generally arises from high price of the product, decrease in demand, inferior product quality, uneasy payment, lack of advertising and sales promotional techniques, etc.

Also, Turkish business firms suffer from several financial problems, e.g., project investments, credits, interest payments, collection of receivables, debt payments, shortage of working capital, etc.

However, firms are mainly affected by working capital and credit shortage problems. Shortage of working capital occurs because customer receivables are not collected on time, and short-term projects are usually financed from working capital. Credit

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shortage, on the other hand, occurs as a result of not having enough outside credits.

The factors creating production, personnel, marketing and financial problems have their roots in organization problems which are related with size, growth and environmental factors. Especially, growth and environmental factors have strong affect on organizational problems.

Since, Since, factors are related with system problems and organizational problems then we can establish the below relationships:

(1) System or management problems are a function of organizational problems.

(2) Organizational problems are a function of company size, growth stage and environmental factors.

(3) Also, management problems are a function of environmental factors, growth stage and company size.

That is,

$$(1) M_p = f(O_p)$$

$$(2) O_p = f(C_s, E_f, G_s)$$

$$(3) M_p = f(C_s, E_f, G_s)$$

In the next chapter these relationships will also be analyzed.

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CHAPTER 5

PROBLEMS DUE TO IMPROPER APPLICATION OF PRINCIPLES

A. PURPOSE

Growing firms cannot take the advantage of full application of basic organizational principles because of environmental restraints. Instead principles are partially applied.

Partial application of basic principles usually creates organizational problems in firms. As the firms grow in size, these problems do not only increase in magnitude but also raise interrelated management problems.

Therefore, the aim of this chapter will be verification of the below hypotheses:

$$(1) \quad M_p = f(O_p)$$

$$(2) \quad O_p = f(C_s, E_f, G_s)$$

where:

M_p = Management problems

O_p = Organizational problems

C_s = Company size

E_f = Environmental factors

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G_s = Growth stage

That is (1) management problems are a function of organizational problems, (2) organizational problems are a function of company size, growth stage and environmental factors.

B. IDENTIFICATION OF TERMS

1. Steady stage - refers to the situation where firms do not show any growth pattern.
2. Transition stage - indicates the dynamic situation where firms start to grow in size.

C. ANALYSIS

1. Lack of Specialization: In a small firm which is at steady stage lack of this principle or function creates very few problems, e.g., frequent operations delay and less production, which are not so significant.

At transition stage the above problems increase in intensity and various problems, such as inferior product quality, some material and product waste, more executive attention, some job dissatisfaction and few employee turnover, arise.

In a medium size firm the problems of the transition period are seen in magnified form. Besides the firm is faced with additional problems, e.g., many unfinished jobs, undesired performance results, frequent mobility of workers from one work sta-

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tion to another, conflicts, distrust among employees, loose discipline, increase of operation cots, rather low morale, etc.

As the firm approaches to large size, these problems increase in magnitude, and raise new system problems among which we can list the following: (1) violation of orders, (2) high bias, (3) prejudice, (4) overload of subordinates, and (5) loose control.

Finally, at the latest stage of growth these problems do not only develop but also create other serious problems, e.g., recruitment difficulty, low sales, late product deliver, low profit, undesired customer service, violation of orders and business decline.

2. Lack of Delegation: In a small firm lack of this principle creates only executive burden problem.

However, at transition period, besides the increase of executive burden, several new problems such as direct communication, direct control and individual conflicts arise.

Similarly, at later stages of growth the problems of previous stages develop and also raise additional problems.

The nature, intensities and affects of organizational problems that arise due to not exercising one of the basic principles are depicted in Appendices I, II and III.

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D. RESULT

Partial application of the basic principles creates organizational problems at each stage of company growth. As the firms grow in size, problems that exist at earlier stages become more complex, and even create interrelated system problems during later stages of growth.

Further, the results of the analysis depicted in the Appendices reveals that lack of one basic principle also distorts the other principles which are fully applied. The intensity of this distortion is also directly related with size and growth.

Therefore, (1) management problems are a function of organizational problems, (2) organizational problems are a function of company size, environmental factors and growth state.

That is,

$$M_p = f(O_p)$$

and

$$O_p = f(C_s, E_f, G_s).$$

In the next chapter three representative firms will be examined for the verification of the hypotheses.

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PART III

CAUSES AND EFFECTS OF
ORGANIZATIONAL PROBLEMS IN
PRACTICE - A CASE STUDY OF
THREE METAL MANUFACTURING
FIRMS IN TURKEY

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CHAPTER 6

THEORY VERSUS PRACTICE

A. PURPOSE

In this chapter three representative Turkish firms will be analyzed to detect some of the organizational problems and to verify the below hypotheses:

$$(1) M_p = f(O_p)$$

$$(2) O_p = f(C_s, E_f, G_s)$$

where:

M_p = Management problems

O_p = Organizational problems

C_s = Company size

E_f = Environmental factors

G_s = Growth stage

The above mathematical statement means that: (1) management problems are a function of organizational problems, (2) organizational problems are a function of company size, environmental factors and growth stage.

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B. DEFINITION OF COMPANY SIZE

Manufacturing and business firms are defined in a different way by different writers of organization, e.g., number of employees engaged, as the percentage of the total employees working at manufacturing firms, kilowatt-hours of electricity consumed per week or per month, plant size, annual sales, total assets, total net worth, type of ownership, etc.¹

For the analysis of the representative Turkish firms definitions will be based upon the number of workers engaged in manufacturing.

1 - Small firm: any manufacturing firm hiring 3-500 employees.

2 - Medium size firm: any manufacturing firm hiring 500-1000 employees.

3 - Large firm: any manufacturing firm hiring 1000 or more employees.

¹ Basil, op. cit., p. 2; U. S. House of Representatives, Select Committee on Small Business, Final Report No. 2970, Jan. 3, 1957, Washington: Government Printing Office, pp. 1-5; A.D.H. Kaplan, Small Plant Management, "The Economic and Industrial Importance of Small Plants", ed. by E. H. Hempel, New York: McGraw-Hill, 1950, p. 9.

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C. STRUCTURAL ANALYSIS OF FIRMS

1. "X" Metal Processing Company ("X" M. P. Co.)

Ownership: Joint Stock Company (100% privately owned.)

Control: 5-man business (Top organization consists of a Chairman of the Board, Managing Director, Works Manager in charge of Company Operations, Sales Agent and Secretary)

Size: 450 employees

Nature of Business: Manufacturing household appliances, e.g., gas stoves, ovens and cookers, and enameling pre-fabricated sheet metal products for other industries on contract basis.

a. A Short History of the Firm

The company in question was established in 1953 as a privately owned business venture. Scope of work included mainly painting and enameling kitchen equipment for other metal working industries in the neighbourhood.

There were 1 boss, 1 foreman, two leadmen and twenty workers in the initial period who were responsible from the operations of the workshop. Figure 1 shows the informal organization structure of the firm in 1953.

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The workshop performed similar types of activities till the date of incorporation in 1962. There has been no change in the volume of activities between the years of 1953 and 1959. Growth came with an increase in the volume of contract activities.

Early in 1960 the company expanded its production lines by adding two painting cabinets, one oven, and also made some informal changes in the organization structure. As seen from Figure 2. 1 accountant, 1 foreman and 2 additional leadmen were hired for new lines. Operations followed the same route till the date of incorporation in 1962.

Late in 1962 original plant was expanded and new household appliances, e.g., gas stoves, ovens and cookers, manufacturing lines were added. Besides, informal changes were made in the organization structure. The informal organization of the firm is depicted in Figure 3.

As shown in this Figure additional supervisory levels were created for delegation of management functions.

Early in 1964 a new building was erected to accomodate the office personnel.

Structural growth entered into the scene in 1968. With the help of outside consultants the company was able to design its present formal organization structure. Specialist personnel, e.g. purchasing chief, administrative supervisor, sales agent, works manager, etc., were recruited for new positions. This is illus-

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trated by figure 4.

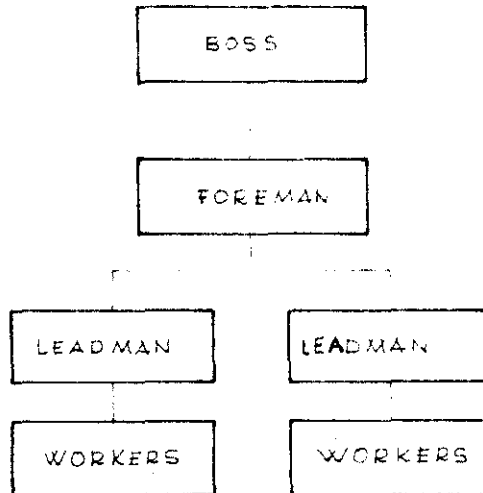


FIGURE 1: - Informal Organization Structure in 1953 (size: 20 workers) (Source: "X" Metal Processing Company)

In the middle of 1968 a second gas oven line was added, and twenty workers were hired for day and night shift.

Late in 1968 the company erected a warehouse, and 1 carpenter, 1 electric and 1 machine shop to solve its storage, maintenance and repair problems.

Table 1 gives the summary of the significant changes that has been made, and Figure 5 shows the growth of "X" Metal Processing Company.

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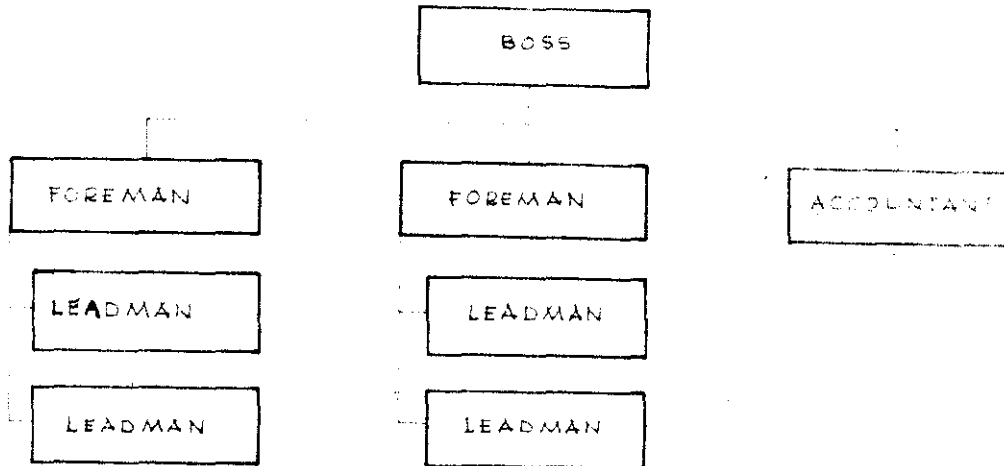


FIGURE 2: - Informal Organization Structure in 1960 (Size: 75 workers) (Source: "X" Metal Processing Company)

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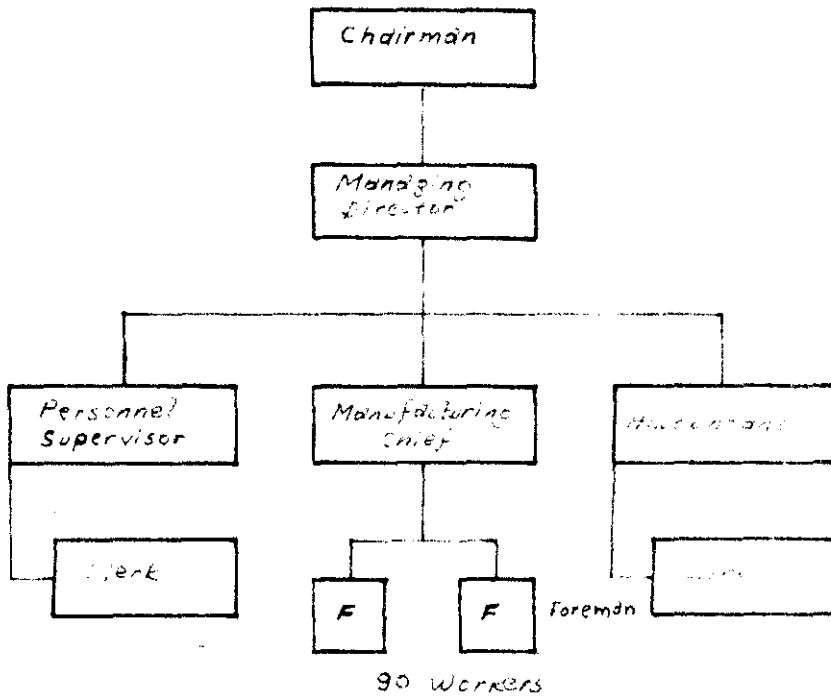


FIGURE 3: - Informal Organization Structure in 1962 (Size: 90)
(Source: "X" Metal Processing Company)

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CH II (3) Fig 4

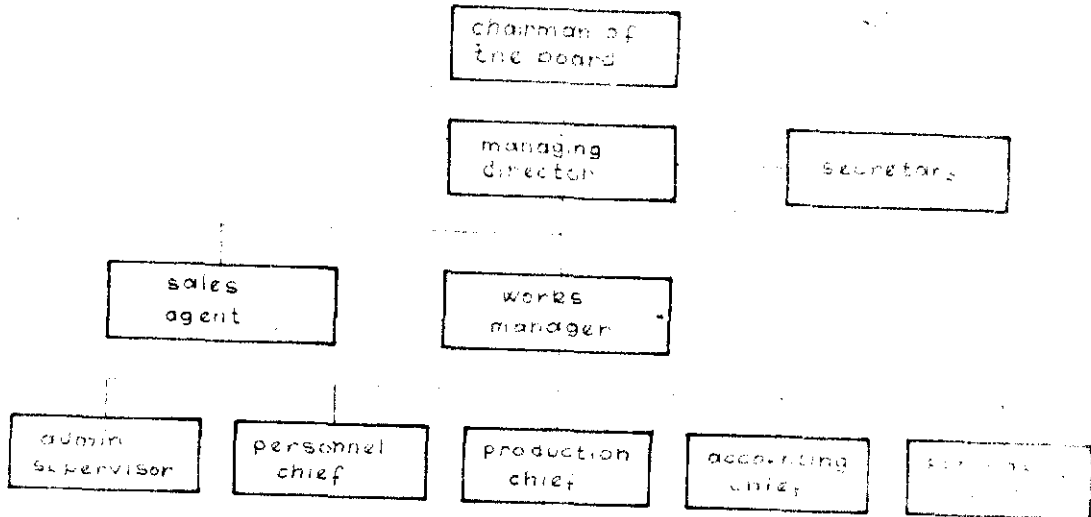


FIGURE 4: - Formal Organization Structure in 1968 (Size: 450)
(Source: "X" Metal Processing Company)

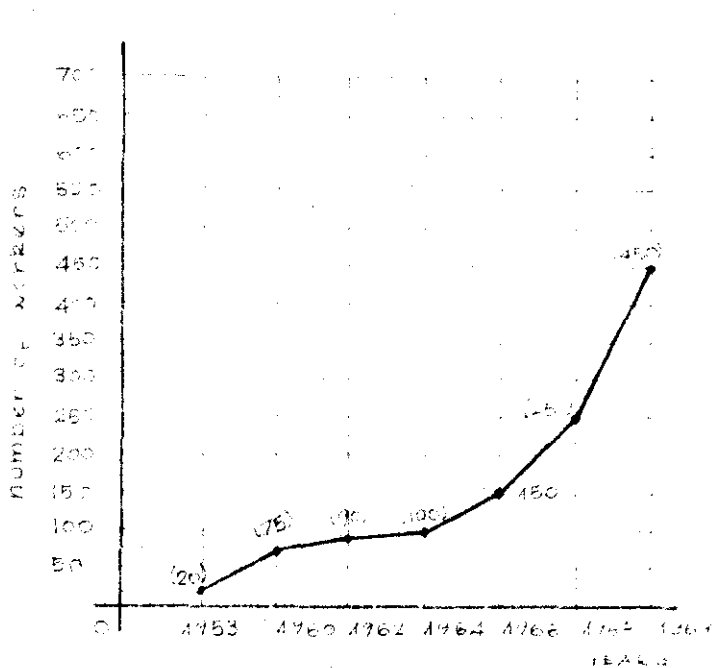


FIGURE 5: - The Growth of "X" Metal Processing Company

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b. Organizing and Organization

b.1. Specialization: There is functional specialization in the company. Tasks to be performed are quite segregated. There is also division of work down the line, e.g., production department is divided into shops. Division of labor is recognized within the context of specialization, but rather in a restricted sense. Due to environmental restrictions such as shortage of raw materials and semi-finished products and sometimes man power, specialization by function or place is not seen in the lower echelons. Workers are assigned different tasks to do under varying circumstances. There is no guide in the organization which clearly describes functions or tasks to be performed.

b.2. Delegation: The basic principle of delegation which equipts clear-cut definition of authorities is not being practiced at all in the formal organization. For example, the Managing Director delegates part of his responsibilities to either Sales Agent or Works Manager. Most of the time he is performing the tasks alone. The main reason is that he cannot trust his executives. Works Manager has almost the same position. His inability and reluctant personality lets him to resume all the responsibilities alone. He assigns tasks to his subordinates without holding them responsible. No matter how the works are accomplished the sole responsibility relies on him.

b.3. Span of Control: This principle is not applied as explained in the literature. The number of subordinates to be

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responsible to an executive is not determined basing on variety and importance of activities, repetitiveness of operations, time required for supervision, degree of delegation, ability of subordinates, but simply by rough estimation. If these concepts had been considered, then the Works Manager would be in need of eight or nine subordinates under him.

Similarly, restrictions on specialization of functions and delegation principles has created rather, narrow span of supervision in the organization; especially at lower levels. This is illustrated in Figure 6

CH IV (7) Fig 5

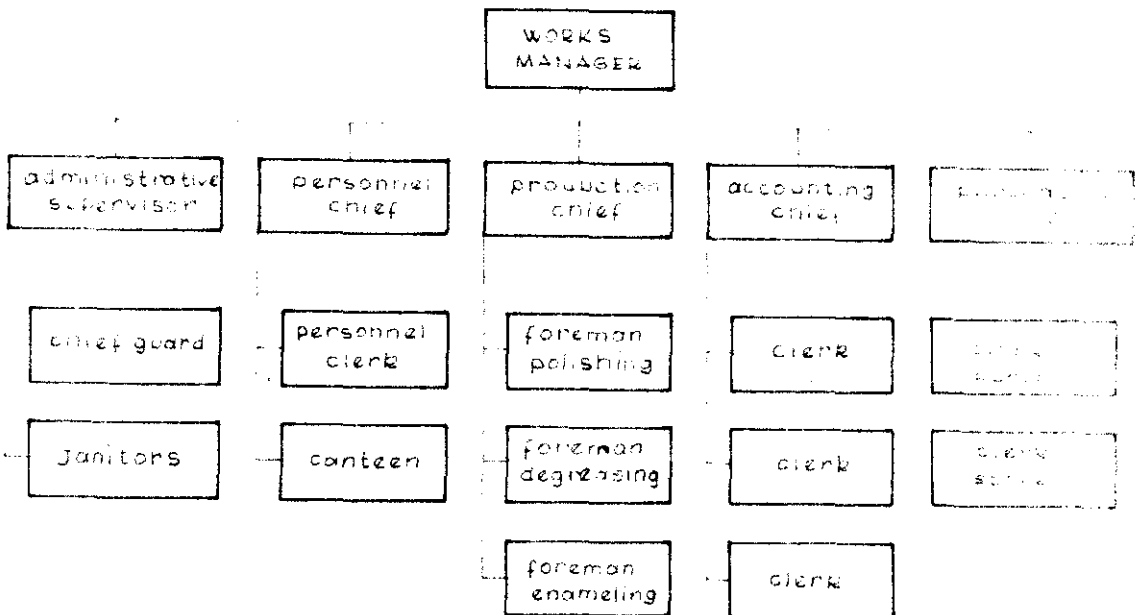


FIGURE 6: - Span of Control (Source: "X" Metal Processing Company)

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b.4. Informal Organization: Restrictions on delegation of authorities and responsibilities has increased the degree of interpersonal relations in the company. For example, Managing Director jumps off the Works Manager frequently, contacts either with department chiefs or unit foremen, assign them tasks, ask the status of each job assigned without seeing their supervisor. Similarly, the works Manager does the same deed quite often. He is always in touch with his foremen, rather than department chiefs. Interdepartmental communication follows alost the same informal route. From time to time each subordinate and supervisor stick to formal channels. For the members of the firm to follow the formal organization is considered "red tape". They are convinced that the daily tasks would have not been accomplished if they have followed the formal channels.

b.5. Staff Assistance: The company, although there are staff units, depends also upon outside assistance. From time to time, e.g., to assist the preparation of the yearly balance sheet and profit/loss statements, to audit accounts, resolve labor conflicts, etc., it calls for temporary staff specialists such as lawyer, financial advisor and tax specialist. The rest of the problems are tackled by the informal "works committee" in the organization.

b.6. Committees: Although, there is no formal committee set-up in the company to provide consultative services, there is an informal "Works Committee" which formulates tactical decisions.

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The Committee is composed of 1 Chairman (Managing Director) and two members (Sales Agent and Works Manager). The members meet when it is deemed necessary.

c. The Planning Process. The company has not recognized the role of formal planning. Every sort of planning is made in an informal way. Policy formulation relies on Board members. Besides they are responsible for short-term and long-term planning, e.g., financial, product, sales, etc.,. Operational plans are prepared by the informal "Works Committee", and are formulated by the Board.

c.1. Participation in Decision-Making: Decision-making process is based on team-work practiced generally by the top executives, e.g., Chairman, Managing Director, Sales Agent, Works Manager.

Strategic decisions are usually made at Board level, where the Managing Director is also engaged. On the other hand, tactical decisions are designed through participation of the members of the informal "Works Committee", but their final shape is given by the Board.

Since, the concept of delegation is practiced in a restricted manner at lower echelons, department chiefs seldom participate at decisions to be made by the Works Manager. Sometimes the Works Manager consults or co-ordinates with his subordinates rather difficult decisions to be made which are either beyond his

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knowledge and skill. Usually, he is self-centered for daily decisions.

The same mood occurs even at lowest echelons. Neither department chiefs nor their subordinates search for bright and better ideas which would shed some light for decision-making processes. However, when a necessity arises the chiefs and subordinates do co-ordinate and consult with each other.

d. Leadership: The results of the face-to-face interviews and over-all survey on employees working moods reveals that the leadership status of this company is "poor" and leaders are not so vital because:

- 1 - Top leaders and line-executives are selfish.
- 2 - They don't listen to the problems of the employees.
- 3 - There is no fair-pay.
- 4 - There are conflicts among the members of the organization.
- 5 - Communication is poor.
- 6 - There is bias among executives.
- 7 - Supervisors do not assist workers.
- 8 - There is no precise delegation at each level.
- 9 - The members do not trust each other.
- 10 - The general morale is low.
- 11 - No perfect co-ordination and control exist.
- 12 - The leaders are unskilled and incompetent.

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13 - The leaders do not have self-confidence.

14 - The leaders are not creative.

15 - Facts, judgment and different viewpoints of the subordinates are not considered.

e. Control: The firm has not put any emphasis on formally planned control mechanisms. Controls are informally and temporarily designed and applied. Similarly, performances are evaluated by experience and pure judgment; neither control standards nor methods have been established. Since, measurement of performances are done by individuals without basing on any yardstick reliable results cannot be accomplished at all.

Besides, informal controls applied vary in nature and scope depending on time and volume of work. The most common informal controls are: (1) production control, (2) quality control, (3) manpower control, (4) expense control, and (5) material control. These informal controls, however, do not possess any informal criteria for application. Thus, they do not reflect effective results.

Years	No. of Employees	Significant Events
1953	26	Establishment
1960	75	Outside orders increased.
1962	99	Informally changed structure, expanded production lines.
1964	109	Increased production capacity, Erected office building.
1966	159	Added the second shift, hired additional workers.
1968	259	Designed its formal structure, added new production lines.
1969	450	Erected warehouse and workshops, hired additional personnel.

TABLE 1: - Summary of Major Changes Made in "X" Metal Processing Company

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2. "Y" Metal Works Company ("Y" M. W. Co.)

Ownership: Joint Stock Company (100% private family owned)

Control: 4-men business (Top Organization consists of a Chairman of the Board, Managing Director, Technical Assistant, Administrative Assistant)

Size: 650 - 750 employees (winter - summer)

Nature of Business: Manufacturing refrigerators, washing machines, gas stoves, electrical plates, aluminum profiles, energy transmission posts, steel trusses, etc.,.

a. A Short History of the Firm

The company was established in 1954 as a steel manufacturing and processing workshop running its operations through local contracts with private and government entities.

Scope of work included the manufacture of energy transmission posts, steel trusses for bridges and ceilings.

There were 1 boss, 1 foreman and 30 workers in the workshop. The owner-manager or the boss was responsible from accounting, credit and contract activities. The shop was running under the supervision of the forman. This is shown in Figure 7.

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Ch II ⑫ Fig 7

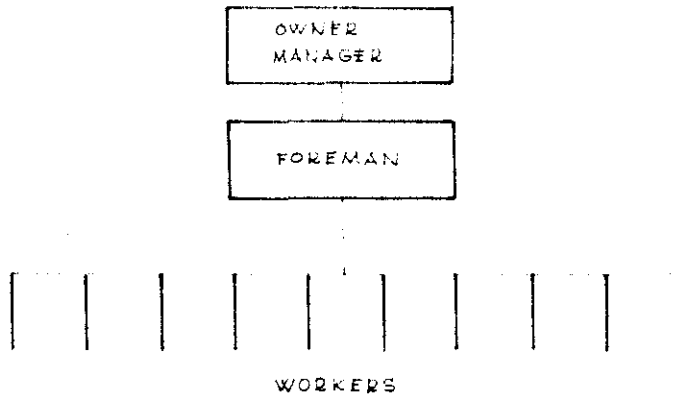


FIGURE 7: - Informal Organization Structure in 1954 (Size: 30 workers) (Source: "Y" Metal Works Company)

Growth came shortly after its establishment as collective partnership in 1958. The years between 1954 and 1958 were considered to be the stagnation periods for the company because there had not been any appreciable increase in the volume of work.

In 1958, physical growth came with the addition of several machinery for job-lot manufacture. Physical expansion brought also informal change in the organization structure.

As depicted in Figure 8, 1 accountant, 1 technical director, 3 leadmen and 30-40 additional workers were hired to fill in the new positions.

In 1959, the company erected a new aluminum profile manu-

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facturing workshop on a new site, and hired 1 foreman and 10-15 workers for this purpose. The slight change made in the informal structure is illustrated by Figure 9.

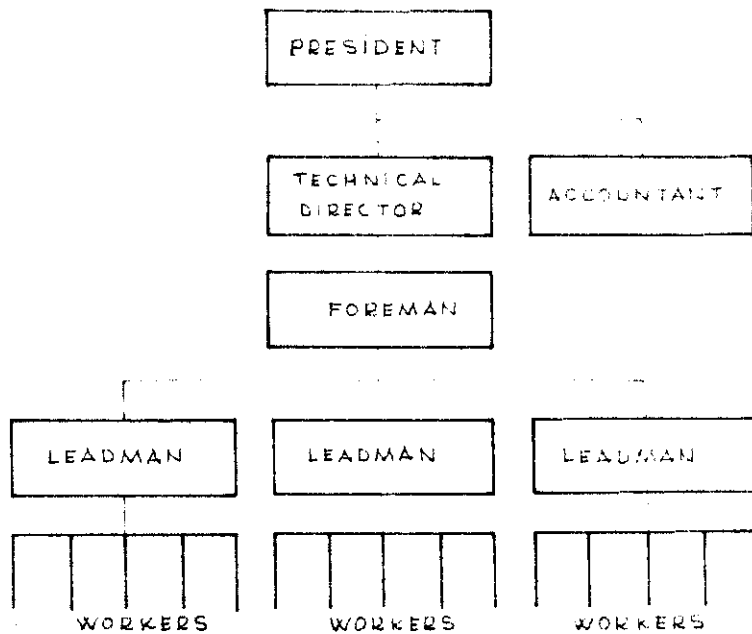


FIGURE 8: - Informal Organization Structure During Common Collective Partnership (Year: 1958)(Size: 60-70 workers)
(Source: "Y" Metal Works Company)

Late in 1960 the firm expanded the original plant and added household appliances manufacturing lines. The strategy of product diversification, however, did not bring any change in formal organization structure. Only 65 additional workers were recruited for the new lines.

The significant changes that have been made between the

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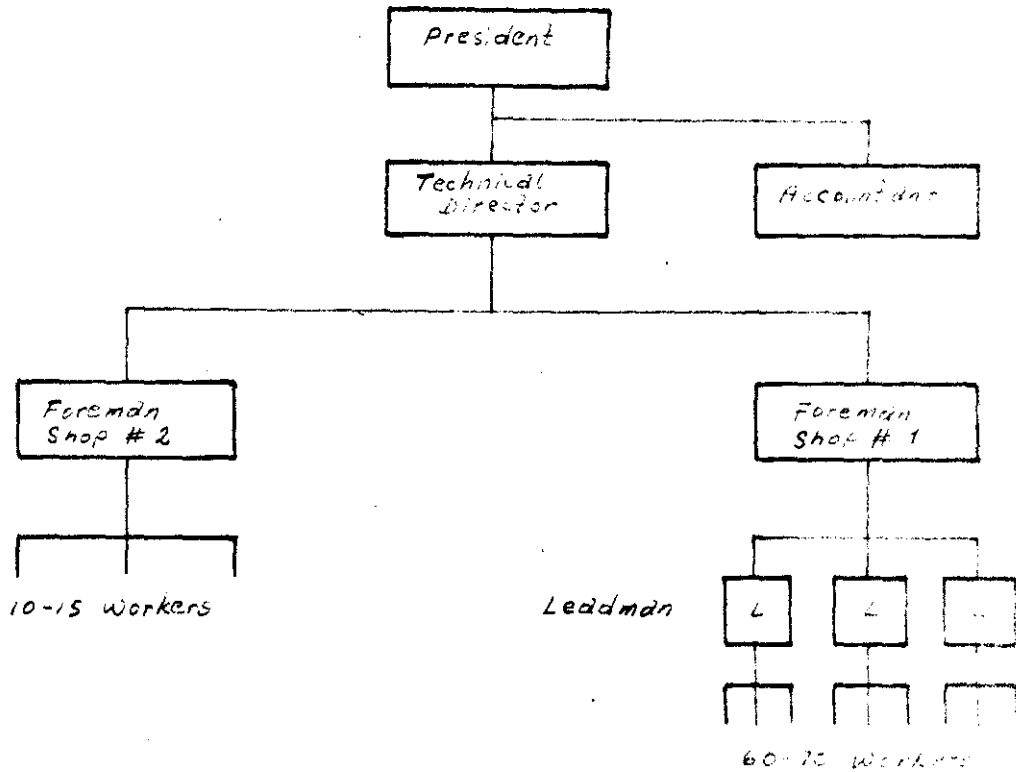


FIGURE 9: - Informal Organization Structure in 1959 (Size: 70-85 workers) (Source: "Y" Metal-Works Company)

years of 1960-1969 are shown in Table 2. It is noteworthy to emphasize also that the year 1960 is to be considered as a transition from job-lot manufacture to line production.

Figure 10 on the next page illustrates the increase in company size between the years of 1954 and 1969. Figures 11 and 12 indicates the structural changes that have been made in 1964

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(after incorporation) and 1969.

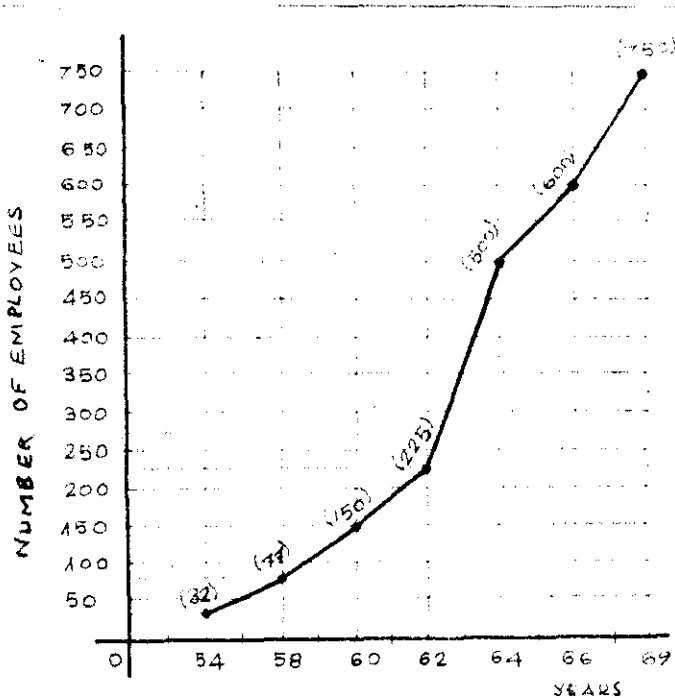


FIGURE 10: - The Growth of "Y" Metal Works Company

b. Organizing and Organization

b.1. Specialization: Present formal organization chart of the firm reveals a typical type of horizontal specialization. Line management has been divided into many functions, e.g., personnel, accounting, finance and credits, marketing and sales, customer services, production control, manufacturing, etc. However, this is not a real functionalization which traditional theories emphasize.

In actual practice some specialization occurs in various departments. For example, personnel, services and accounting functions are separated. These departments are further divided

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Ch IV (4) Fig 9

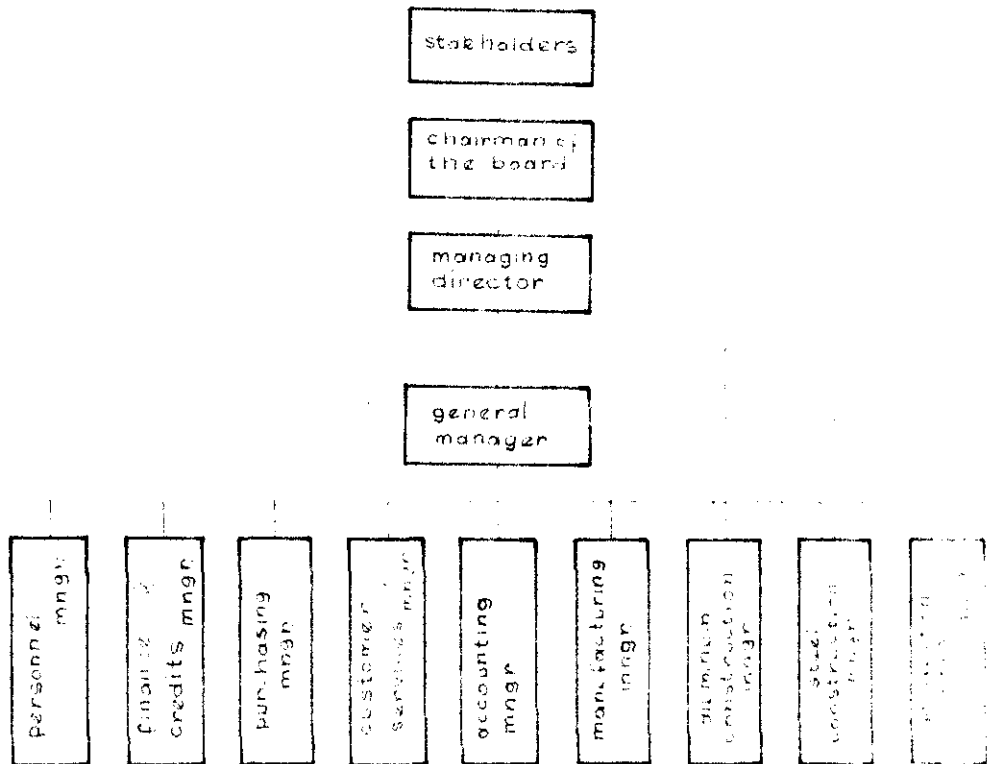


FIGURE 11: - Formal Organization Structure after Incorporation in 1964 (Size: 450-500 Employees) (Source: "Y" Metal Works Company)

into work units where people are assigned different specific tasks. But, in the rest of the departments specialization concept is rather confused. Although the production control manager is assigned the control function, he performs production activities rather than control which is not seen at all. Similarly, manufacturing manager executes repair and maintenance tasks which ought to be performed by a subordinate at lower levels. Hence, at "Management Level" specialization by function is not being fully

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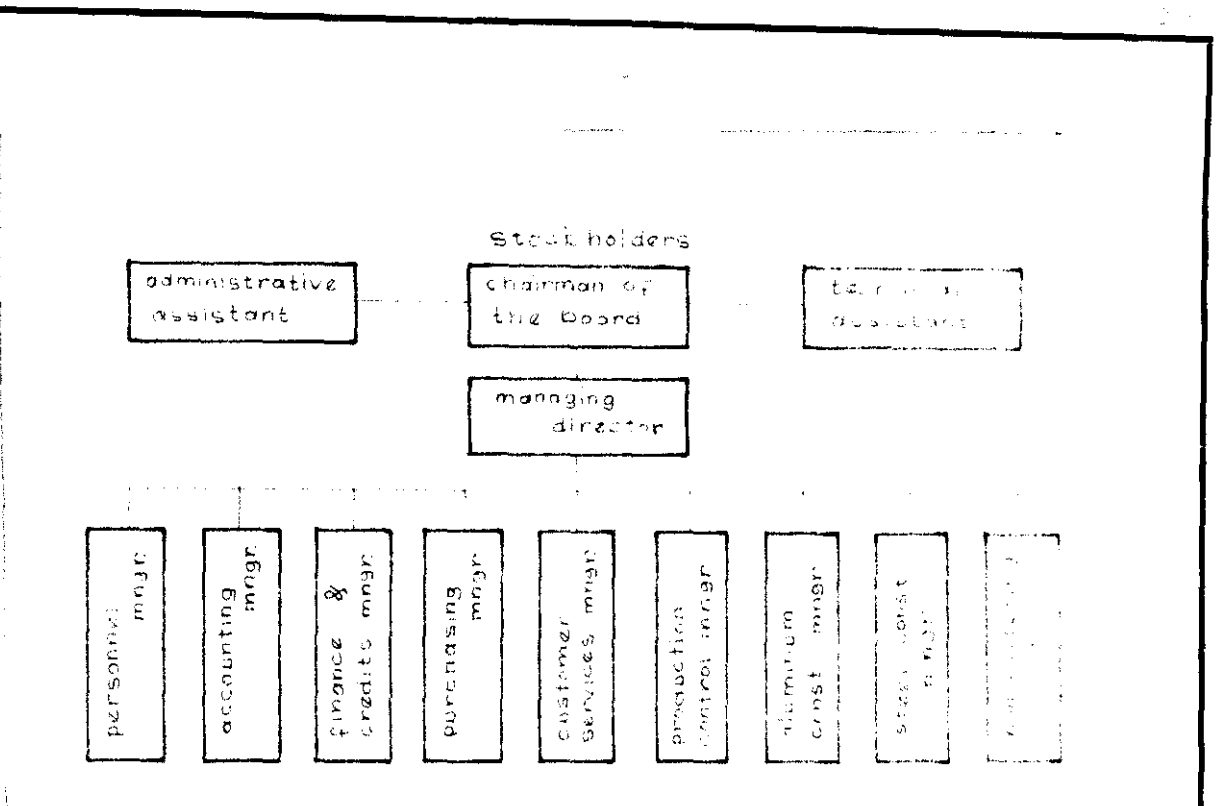


FIGURE 12: - Formal Organization Structure in 1969 (Size: 750 Employees) (Source: "Y" Metal Works Company)

practiced at this firm.

At lower levels division of work occurs in some units. But in production departments, because of the frequent mobility of the man-power, tasks are assigned temporarily depending upon need.

b.2. Delegation: The company is not used to taking advantage of the full utilization of the major principles of delegation. Neither the top nor the line managers could delegate because of not having "uniformity" in the organization structure. The overall strategies and tactics are not clearly formulated and diffused to total members. The main objectives are not also known by the

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Years	No. of Employees	Significant Events
1954	32	Establishment of a workshop.
1958	77	Establishment of a collective partnership. Expansion of production line.
1959	85	Erection of a new profile workshop on a new site.
1960	150	Expansion of original plant. Start of household appliances manuf.
1962	225	Increase of production capacity. Addition of a second shift.
1964	500	Incorporation. Erection of a new head-quarter and machine shop.
1966	600	Reorganization. Recruitment of specialized personnel.
1969	750	Expansion of the assembly lines and departments.

TABLE 2: - Major events seen in "Y" Metal Works Company during the course of its development.

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managers. Also, due to several reasons such as old customs, habits, social conflicts, fixed beliefs of executives in inability of subordinates, biases, selfishness and general distrust, delegation is practiced in a limited manner. Tasks are usually assigned to subordinates without responsibilities.

b.3. Span of Control: Since delegation concept is not being totally applied the results of supervision are ineffective. For example, the Managing Director of the company is overloaded although he has enough subordinates under his command. Besides, his by-passing habits and personal contacts with people at lower levels loosens the degree of supervision of his immediate subordinates.

At chief's level, narrow span of control is seen. Chiefs are usually drown in heavy work. Thus most of the daily tasks can not be accomplished on time.

b.4. Informal Organization: Although there is a formal organization structure established, normal communication is done through informal channels. Person-to-person contacts are widely practiced. Jump-offs are seen quite often. It has become a custom, rather than a rule, not to disturb the busy executive. To facilitate daily work contact is often made with the subordinates. This is what most people exercise in the organization.

b.5. Staff Assistance: There are two staff assistants

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in the firm who are attached to the Chairman of the Board. They consult the Chairman in technical and administrative matters, gather and compile relevant information to be used by Board members, and assist line managers in solving problems which are beyond their ability and knowledge. Also, they attend the meetings of the informal "Operations Committee" whenever needed, provide assistance to members in decision-making. Without contacting the chairman they can contact with any executive. Besides, there are several staff divisions attached to the line. This is shown in Figure 12.

b.6. Committees: The firm at this stage of growth has not recognized the role of a formal committee within its formal structure; having known members who meet at predetermined time intervals. Instead, the Managing Director, with his own initiative has designed an informal "Operations Committee" to discuss operational problems and to determine work methods. The Committee meets under the chairmanship of the Managing Director. Members are usually the line executives. Committee meetings and attendance of members follow an unusual pattern; the committee may meet e.g., twice a day or once a month and three or five members or sometimes all members attend depending upon will and need of the chairman. The staff assistants, upon request, join the meetings to provide professional assistance.

c. The Planning Process: Short-term (materials, sales, inventory, manpower and credits, etc.,) and long-term (project

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investments, changes to be made in the capital structure, products etc.,) planning, policy and operational decisions are made at Board level in an informal way.

In like manner, these short-term and long-terms plans, and other strategical decisions are formulated at Board meetings. However, tactical decisions - although designed by the Board - are initially made at the operations committee depending upon joint-participation, co-ordination and consultation of line managers and staff assistants.

Although planning is done informally decision-making process at top level depends heavily upon facts, judgments and relevant outside information secured by staff assistants.

Since delegation can not be fully applied at lower levels line executives do not generally participate with their subordinates. They make their own daily decisions.

d. Leadership: Incompetence of executives, distrust among members, informal communications, social cliques, strict rules, bad working habits, lack of discipline, selfishness, biases, regular conflicts, moral and material dissatisfaction of employees, lack of enthusiasm, short of delegation of authorities and responsibilities, lack of merit rating, individual prejudice, etc., have loosen the spirit of "good leadership". Leadership is generally poor in this firm.

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Leaders tends to stay out of trouble. They do not have confidence in themselves. Due to continuous job insecurity they are rather "let me have today's pay and never mind what happens tomorrow" type.

e. Control: Like organizing, planning and leading functions, controls are also informally applied at certain areas in the organization. They do not depend even on informal preparation or planning. Besides the objectives, the control mechanisms are neither clearly determined nor known by every individual in the organization.

The major controls are: (1) production control, (2) quality control, (3) absence control, (4) expense control. Also, measurement and evaluation of results is done by judgment of people who are assigned; no informally established standards are used for this purpose.

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3. "Z" Metal Industries, Inc., ("Z" M. I. Inc.)

Ownership: Joint Stock Company (100% private)

Control: 7-men business (Top Organization consists of a Chairman of the Board, Managing Director, President in charge of overall Company Operations, Vice-President in charge of Technical Services, Vice-President in charge of Administrative Services, Staff Assistant and Secretary)

Size: 1950 employees

Nature of Business: Manufacturing refrigerators, washing machines, gas stoves, gas cookers, vacuum cleaners, water heaters and air conditioning equipment.

a. A Short History of the Firm

The present company was a small steel and metal processing workshop when it was established in 1953. As seen from Figure 13, there were 1 boss, 1 foreman and 10,15 workers who were engaged with the workshop operations.

In the initial period scope of work varied in nature depending upon local orders. The major operations were mainly machining rough casting parts, metal forging and rolling. Later in 1956 the workshop expanded its activities and started to manufacture metal filing cabinets, chairs and tables of different

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types. Also, as indicated in Figure 14, 1 accounting clerk, 4 leadmen and an additional 20 workers were hired.

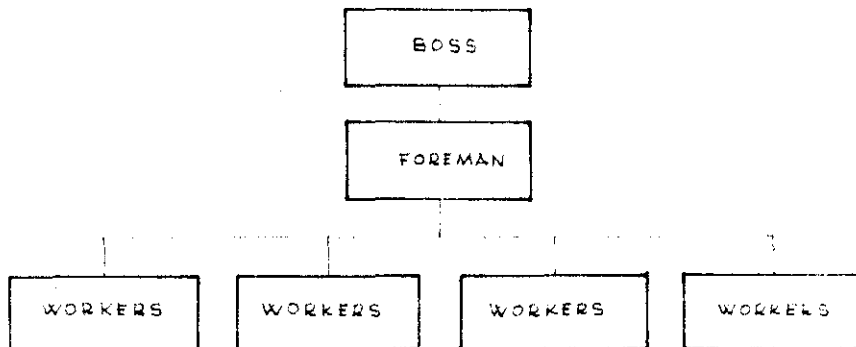


FIGURE 13: - Informal Organization Structure in 1953 (Size: 10 - 15 workers) (Source: "Z" Metal Industries, Inc.,)

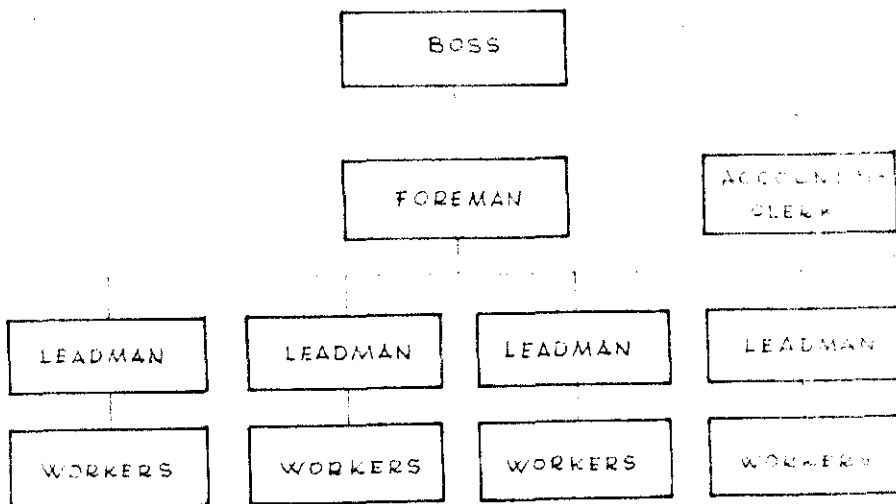


FIGURE 14: - Informal Organization Structure in 1956 (Size: 40 employees)(Source: "Z" Metal Industries, Inc.)

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The workshop performed similar types of operations until its incorporation in 1959. In the same year the company expanded its production lines, changed the informal structure as shown in Figure 15, and started the manufacture of household appliances, e. g., refrigerators, washing machines, gas stoves, vacuum cleaners and gas cookers.

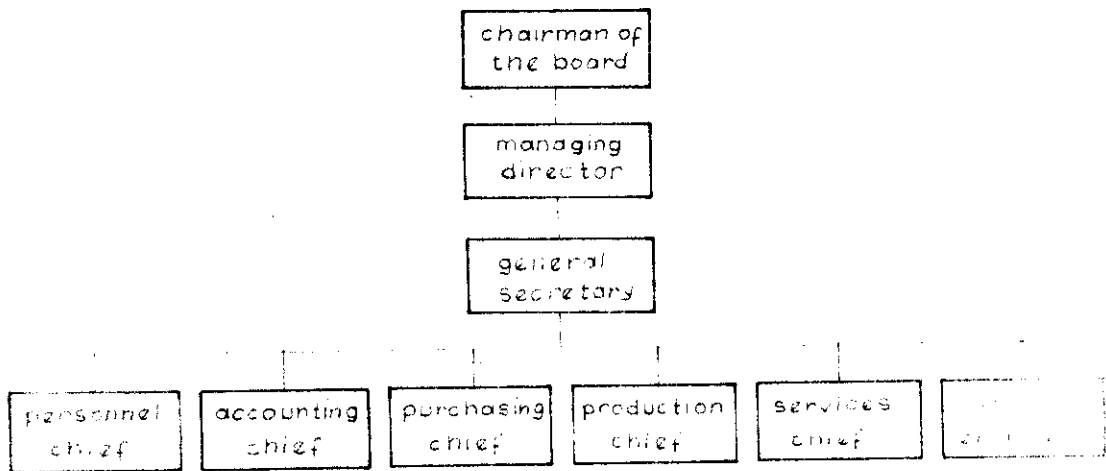


FIGURE 15: - Informal Organization Structure in 1959 (Size: 350 Employees) (Source: "Z" Metal Industries, Inc.)

Market growth forced the firm to increase its production capacity in 1962. Thus, the firm added the second shift, and hired additional workers.

In 1965, because of the increasing organizational problems the firm had to design a new structure and recruit specialist personnel.

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Late physical growth came early in 1969. The company added air conditioning equipment manufacturing line, and also increased the production capacity of the existing refrigerator manufacture lines.

Another important point is that the company did not make any change in the formal structure which was designed in 1965. Thus, the current formal organization structure depicted in Figure 16 is the same with the one designed in 1965.

The significant events that have occurred in the firm between the years of 1953 and 1969 are summarized in Table 3. Also, Figure 17 indicates the sudden growth of the firm after the date of incorporation in 1959.

b. Organizing and Organization

b.1. Specialization: The company has put much emphasis on functional specialization at its late stage of growth, especially after its re-organization in 1965. Increase in the volume of activities and in number of employees has created various organizational problems, e.g., delegation, span of control, division of work, planning, directing and controlling, etc., which has forced the company to re-organize in order to run the operations smoothly and to have profitable returns.

Division of work is being seen in practice at each level. Although real functionalization, e.g., production, finance, marketing and personnel does not occur at Top Management, it is widely applicable at line management and even at lower echelons.

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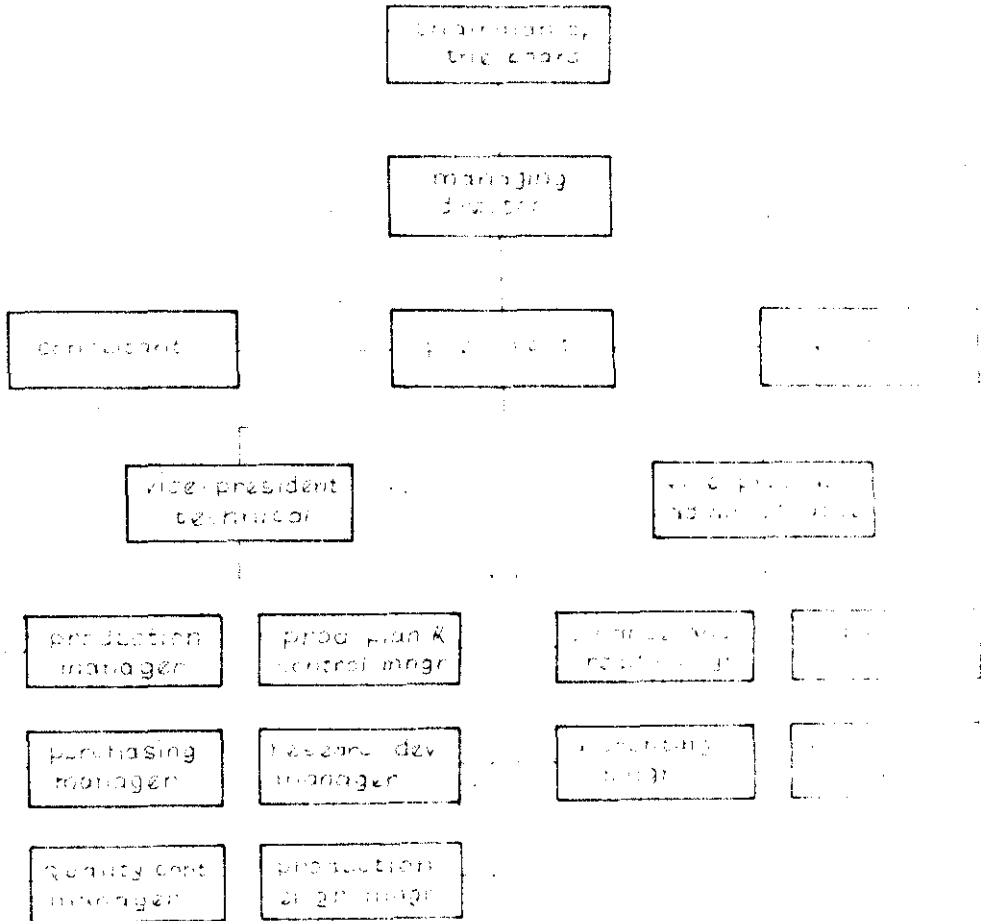


FIGURE 16: - Formal Organization Structure in 1969 (Size: 1950 employees) (Source: "Z" Metal Industries, Inc.,)

For example, Line Management has been divided into several departments where specific functions are performed. Each department is further separated into sections and units, e.g., within the production department these are six sections, namely, metal drawing, body forming and welding, polishing, degreasing and phosphazizing, painting and final assembly. Similarly, each section is also di-

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vided into several work units.

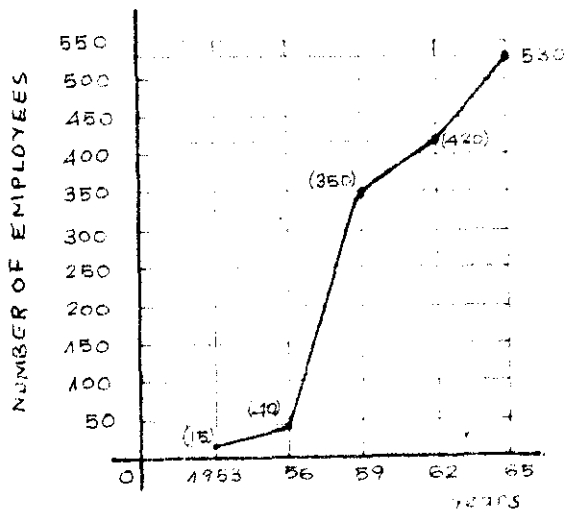


FIGURE 17: - The Growth of "Z" Metal Industries, Inc.

Specialization of horizontal type. The other "vertical" type which is based on decision-making is seen at certain levels in the total organization where authorities and responsibilities are delegated by the top executive.

b.2. Delegation: This principle has not also found its exact application at this large-size industry although there is urgent need especially at this stage of growth.

It is neglected somehow even by the executives of higher talent and of unique personality. Somewhere along the line it has lost its way, and has become rather a "useless concept" by certain

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Years	No. of Employees	Significant Events
1953	15	Establishment.
1956	40	Product diversification (Office equipment manufacture)
1959	350	Incorporation. Expansion of plant and erection of central office. Product diversification.
1962	420	Increase of production capacity. Addition of second shift.
1965	530	Reorganization. Recruitment of specialist personnel.
1969	1950	Expansion of production lines. Product diversification, increase of production capacity.

TABLE 3: - Major events that *were* seen in "Z" Metal Industries, Inc., during its growth.

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people at supervisory positions.

Of course there are several governing factors which restrict its full applicability. First of all, neither strategies nor tactics have been precisely determined in an formal fashion and made well known by the members of the company. Besides, informally prepared and consolidated policies are being disseminated usually to top executives. Second, there is no uniformity among top and line executives. Some possess high educational background, skill, ability, enthusiasm in team-work and well adjusted personality; while others are not well educated, unskillful, unable, selfish, insecure and distrustful.

Therefore, delegation is seen at particular levels with the firm. For example, the President can delegate part of his tasks to the vice-presidents with well defined authorities and responsibilities. However, vice-presidents can only delegate functions to particular line executives merely holding them responsible; the rest of their tasks are performed by themselves. The main reason of this partial application is that some executives are not of the right calibre to resume authority and responsibility.

This partial application phenomenon is also seen at lower levels. Supervisors who trust and who are able to assign tasks with authorities and responsibilities to their subordinates usually delegate, while others do not. To give an example, the quality control manager can delegate duties to his subordinate, quality

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control chief, simply by holding his responsible from the outcome; hence, the chief can do the same thing to his subordinates under his command. On the other hand, the technical vice-president can not delegate any tasks to the production manager because the vice-president, after two or three years of experience within the firm has realized the incapability of the production manager to carry on serious responsibilities. Similarly, the production manager because of not holding any responsibility for activities to be carried out and because of his inability and also his general distrust to his supervisor and subordinates can not also issue tasks with authorities and responsibilities.

b.3. Span of Control: Although formal organization structure reflects quite desirable span of control, in actual practice it is not so. Partial application of delegation, for instance, has widened the span of control of top executives (vice-presidents). Thus, vice-presidents extend their supervisory control even to section chiefs at particular areas.

However, line managers do have rather normal span of supervision, e.g., four to five subordinates under an executive. At chiefs' level, it is almost the same, with exceptional variations. Further down the line, an extremely large span of control is seen. For example, the leadmen in the assembly department are responsible from thirty to fifty workers.

b.4. Informal Organization: Informal channels are the guide posts for the members of this firm. The easiest and quick-

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est way is simply to see the man in charge rather than passing through his boss. This is what they have been doing since years. There is no need of bothering the "busy managers".

Jump-offs do often occur and it is a natural event. No one has been penalized because of his jump offs. Accomplishment of daily work is important rather than following formal chain of command. Informal communication and collaboration is seen at every level.

For example, the Managing Director's usual habit is to see or call section chiefs or even leadmen for problems of his individual interest. Similarly, the technical vice-president is well known with his repetitive contacts with section chiefs. On the other side, direct communication of a leadman with any line manager bears also highly significant panorama.

b.5. Staff Assistance: The company has established several staff divisions, e.g., production engineering, accounting, finance, production planning, research and development, etc., to provide managerial and technical services to the line (See Fig. 6 For legal and tax matters the firm has also part-time specialists e.g., legal advisor and tax advisor. In addition to these, the firm has engaged a full-time management consultant to advise the President in his day-to-day operations and to assist line managers in solving their managerial problems.

b.6. Committees: Quite a few formal and informal commit-

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tees exist at the present stage. There are only two formal, e.g., "Disciplinary Committee" and "Social Service Committee", and two informal, namely, "Operations Committee" and "Works Planning Committee" systems which are designed and are being operated in the firm.

The formal "Disciplinary Committee" meets at irregular intervals; that is, when a need occurs. The members are usually the line managers. Attendance of members to committee meetings is determined by the Chairman of the Committee, who is also the Personnel Manager.

The Committee meets to discuss the disciplinary matters, e.g., changes to be made in the working regulations and ways of conduct, analysis of the cases of the employee who has deviated from formulated rules and company working procedures, and to take corrective action accordingly.

"Social Services Committee", on the other hand, is at a lower level. Section chiefs and supervisors are generally the members of this committee. The Social Services Chief of the Personnel Department is the Chairman of the Committee. The Committee meets irregularly to discuss social matters, e.g., employee feeding, washing and cleaning, lodging and aids, housekeeping, etc., and designs future courses of actions to be taken.

The informal "Operations Committee" is composed of one Chairman (Technical Vice-President) and six line executives who are

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under his command. The Committee meets at varying intervals to analyze the past operational results, difficulties faced during performances, present operational conditions, problems that occur, e.g., production, planning, scheduling, quality control, manpower, auxillary services, etc.; methods followed, discuss alternative solutions to these problems and decide on actions to be taken.

Finally, the informal Works Planning Committee is rather a special type which operates periodically (once-a-week, especially on Thursday afternoons) although there is no predetermined procedure giving the scope of work to be covered at the meetings. The Committee consists of a Chairman (Production Manager) and twenty or twenty-five members, e.g., six production section chiefs and fourteen or nineteen leadmen. At the meetings usually production problems, e.g., amount produced since the beginning of the week, difficulties occurred (machine break-downs, material shortages, employee absentism, etc.), at various lines, remedial actions taken, and amount to be produced till the end of the week, number of workers to be assigned, overtime to be given, materials tools, and equipment needed, maintenance and repair works to be accomplished (if not previously conducted) etc., are discussed and planned.

c. The Planning Process: Long-term and short-term strategic plans are prepared informally at Board Level. Company President, Managing Director, Chairman and other members of the Board are involved in the decision-making process. Informal poli-

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cies are generally designed basing on oral and written information secured within or outside, facts, judgment and past experience, and kept within the brains of top executives.

Operational plans are made at two phases: (1) initial preparation, (2) final design. Initial planning is done by joint participation of the two Vice-Presidents (Technical and Administrative), President and the Managing Director. Informally shaped plans are transmitted orally to the Board members by the Managing Director. Operational plans, after formulation, are disseminated orally to line executives.

Planning at departmental level is done formally and informally depending heavily on line managers. Supervisors often participate in decision-making. Although formal planning is practiced by some line managers, e.g., marketing, personnel, finance, accounting and production planning; the rest of the executives stick extensively on informal planning.

d. Leadership: The results of the personal interviews conducted with top executives, line managers, section chiefs and leadmen and the special survey of the company operations show that "leadership" concept is "mediocre" in the overall company system.

However, within the sub-systems some executives possess the characteristics of good leadership, while others do not. Partical delegation of authorities and responsibilities at several echelons, wide-spread informal relationships at top and lower

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levels, lack of formal objectives, over-lapping in the span of control, inability of some supervisors, short of enthusiasm, short or lack of proper communication, individual biases of certain managers, less attention paid to problems and personal conflicts of employees, distrust of executives and subordinates, etc.; have loosen the degree of good leadership. Those who are considered "good leaders" are rather few in the company. They are recognized with their proper communication, co-ordination, enthusiasm, well adjusted personalities, conflict resolving, attitudes, fair treatment of their subordinates.

e. Control: Formally planned controls are not seen at any level within the organization structure of the firm, although injected by consultants during the time of re-organization. Because of its time consuming and costly nature it is deliberately ignored.

Like other small and medium sized firms, discussed in the previous pages, this company also levies to a great extent on informal controls which are designed to facilitate routine operations. They vary in nature and content each day. They do not have clear objectives.

The most commonly used informal controls are: (1) quality control, (2) stock control, (3) absence control, and (4) expense control.

These rather operational controls are made by rough judg-

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ment of individuals. For example, the company has not established any yardstick for quality control mechanism. No specification has been prepared or determined showing reject and accept tolerance limits. Hence, a product or material accepted by pure judgment or guesswork of one inspector is often rejected by a second inspector. This causes frequent delays and conflict between individuals.

The other control means, e.g., stock control, absence control and expense control; follow the same route.

D. SUMMARY AND RESULTS

The objective of this chapter is to detect some of the organizational problems that appear in small, medium and large size representative Turkish firms and also to verify the hypothesis in question.

Horizontal specialization appears in three firms, e.g., "X" M.P. Co., "Y" M. W. Co., and "Z" M. I. Inc., in the following manner: (1) with few restrictions, (2) with more restrictions and (3) wide restrictions. Vertical specialization is seen at certain levels in "Z" M. I. Inc.,. Also, in the medium size firm this problem is more severe than the small firm. Of course, size, growth and environmental factors are the determinants. However, growth and environmental factors do have the major affect. In the large firms this problem is not so significant.

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Delegation problems exist in the three firms. In the small and medium size, the intensity is high. Size does not play a great role. It is mostly related with growth and environmental factors. Especially environmental factors, e.g., inability of executives, distrust, selfishness, individual biases, reluctance, company customs, etc., have the major influence.

Formal relation problems occur in three firms. They are mainly related with environmental factors.

Informal relations problem increases in magnitude as the size gets larger. It can be tied to growth, size and environmental factors.

Also, emphasis can be put on leadership problems. Analysis made indicates that environmental factors play the important role in their creation. For example, this problem is severe, both in small and medium size firms. If it were related also with size and growth, then it could have been more severe in the large firm. However, it is not so significant.

Further, these firms are also faced with formal planning and control problems which are related with growth and environmental factors.

From the overall analysis it can be concluded that the organizational problems, e.g., decision of work, delegation of responsibilities, informal communication, planning, directing and control, are related with the company size, growth and environ-

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ment factors. Also, the degree of influence of each factor depends upon the nature of the problem.

Therefore,

$$O_p = f(C_s, E_f, G_s),$$

and since

$$M_p = f(O_p)$$

then,

$$M_p = f(C_s, E_f, G_s)$$

TABLE 4: - Summary of Analysis

Organizational functions	"X" M.P.Co. Size: 450	"Y" M.W.Co. Size: 650-750	"Z" M.I. Inc. Size: 1950
Specialization	functional with few restrictions	functional with more restrictions	functional wide vertical certain levels
Delegation	Not exercised	Rarely exercised	Partially applied
Span of Control	Normal at top Narrow at bottom	Wide at top level normal at mngt. level	Normal - supv. levels wide - lower levels
Formal Relations	Rare	Rare	Rare
Informal Relations	Usual	Frequent	Most common
Staff assistance	In and out	Permanent	Permanent
Committees	One - informal	One - informal	2 formal, 2 informal
Planning	Exist - informal	Exist - informal	Exist - informal and formal
Participation in decision-making	At top level	At top and line mngrs. level	Seen at several echelons
Leadership	Poor	Poor	Mediocre
Controls	Few Informal with out standards	few infer al with out standards	few informal without standards

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CHAPTER 7

SUMMARY AND CONCLUSIONS

Part I is designed to provide background information required for the verification of the hypotheses. Chapters 2 and 3 are devoted to the analysis of the growth process and the organizational problems in business firms.

In Chapter 2 types of growth, nature of the growth process and the role of environmental factors are described to provide a basis for theoretical analysis.

In Chapter 3 organizational problems that appear in business firms at each stage of growth are discussed in the light of the basic principles, and their underlying causes are examined in detail.

The purpose of Part II is to have a critical analysis of the causes and effects of organizational problems for the theoretical verification of the hypotheses.

In Chapter 4, the causes and origins of management problems are examined. It is found that production, marketing, personnel and finance problems generally arise from several inter-related factors which have their origins in organizational problems, e.g., organizing, planning, directing and controlling.

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In Chapter 5, the degree of influence of growth stage and size on organizational problems, and also the relationship between management problems and organizational problems are investigated. It is seen that as the size of the firms increase not only existing organizational problems magnify but also new organizational problems arise.

The objective of Part III is to identify the causes and effects of organizational problems in practice. Thus, in Chapter 6, the current organizational problems of the small, medium and large size representative firms are discussed to further verify the hypotheses.

The overall practical analysis made reflects that the organizational problems, specialization, delegation of responsibilities, informal communication, planning, leadership and control are related with size, growth stage and environmental factors. Especially, growth stage and environmental factors have major influence on some organizational problems such as delegation, informal communication, leadership and control.

The above statement verifies $O_p = f(C_s, E_f, G_s)$. Since $M_p = f(O_p)$ then M_p is also a function of (C_s, E_f, G_s) . That is $M_p = f(C_s, E_f, G_s)$.

These two mathematical models can be useful for any business firm in analyzing the causes of management problems. For example, by investigating only the organizational problems,

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management problems, e.g., production, finance, marketing and personnel, can be treated with ease.

If this methodical approach is not used, then firms will have difficulty in identifying the causes of the system problems. It will be time consuming and costly process. Also, irrelevant results can be achieved.

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APPENDIX - I

PROBLEMS DUE TO LACK OF ORGANIZATIONAL PRINCIPLES

ORGANIZATIONAL FUNCTIONS	STAGES OF GROWTH				
	Small Firm	Small to Medium	Medium size Firm	Medium to Large	Large size Firm
A. ORGANIZING					
1. Specialization	Frequent operations delay Less production	More operations delay Low production Inferior quality product Some product waste More executive attention Few employee turnover	Severe operations delay Low production Low quality product More waste Much unfinished work Undesired performance results Increase of executive burden Frequent mobility Individual conflict Distrust Loose discipline Increase of opera- tions cost More employee turn- over less morale	Long-interval bottle necks Very low output Low quality product High waste High cost High volume of unfinished work Unsatisfactory results Overload of executives and subordinates High mobility controls Many unresolved conflicts Violation of orders Less discipline Low morale High distrust High turnover High bias	Too many delays Very low output Undesired quality product Too much waste Very high cost Too many mistakes Too much violation of policies Heavy load of execu- tives and subordi- nates Very high mobility Too much violation of orders Too many conflicts Too much violation of orders High bias Too many outside transfers Recruitment diffi- culties Very low morale Very low sales Too much violation of customer orders Low profit Undesired customer service Business decline

APPENDIX - II

PROBLEMS DUE TO LACK OF ORGANIZATIONAL PRINCIPLES

ORGANIZATIONAL FUNCTIONS	STAGES OF GROWTH				
	Small Firm	Small to Medium	Medium size Firm	Medium to Large	Large size Firm
2. Delegation	Executive burden	Increase of executive burden Less control Direct communication Few conflicts	Executive overload Loose control Less communication Many conflicts Employee distrust Decrease of morale Frequent deviation in results Less production Inferior quality product	Many operations delay Many tasks not accomplished on time Decrease of executive reputation High costs High obligations More bias More conflict Low morale Low production Low quality product	High executive responsibility Severe delays Too many mistakes Too much violation of policies Difficulty to control performances Very high operation costs Low production High material waste High bias Too many conflicts Poor morale High employee turnover Hiring difficulty Low profit Low business activity Very low quality product

APPENDIX - III

PROBLEMS DUE TO LACK OF ORGANIZATIONAL PRINCIPLES

ORGANIZATIONAL FUNCTIONS	Small Firm	STAGES OF GROWTH			
		Small to Medium	Medium size Firm	Medium to Large	Large size Firm
3. Staff Assistance	Executive burden	Increase of executive burden Few operations delay Violation of customers orders Less production Some obligations	Overload of executives Many operations delay Frequent violation of customer orders Low production Increased obligations Increase of subordinate burden Individual conflicts Executive bias Decrease of customer demand Less profit Few outside transfers Less morale Inferior product quality Few deviations in results Few violation of policies	Overload of executives and subordinates Severe operations delay Low production High violation of customer orders High obligations Many conflicts Low morale Increased bias Prejudice Low demand Low profit More outside transfers Decrease of business goodwill High operation costs Frequent business fluctuations Low quality product Many deviations in results Many violations of policies	Too many operations delay Very low production Very low quality product Extensive violation of customer orders Very high obligations Too many conflicts Very low morale High bias High prejudice Very low demand Very low profit High employee turnover Hiring difficulty Low business reputation Very high operations cost Business decline Too much violation of policies Undesired operations results Undesired customer service