

The Theory of an Organization

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Based on Chapter 1, 'The Theory of the Business' of *Managing in a Time of Great Change*, by Peter F. Drucker, Truman Tally Books/Dutton, New York, 1995

Theory?

- A theory defines what is important
- A theory embodies assumptions about ‘how the world works’
- A theory serves as a guide to decision and action
- A theory, to be useful, must be shared by many people; not necessarily by everyone
- A theory must be *falsifiable, i.e., capable of being proven wrong*

The *Theory* of Your Organization

- We don't mean anything abstract or “theoretical” (!); we mean something very concrete and practical, *viz.*
- What people in your organization (or, at least, you) consider to be important, how they (you) think the (relevant portion of the) world works, and how this guides or should guide decision and action

‘We Don’t Have a Theory ...’

- *Yes you do!*
- It is impossible for human beings to exist without formulating ideas about the reality that surrounds them, abstract ideas that guide their everyday actions
- If you think you don’t have a theory, your first task is to find out what you think and know without conscious recognition

The Three Elements of the Theory of any Organization

- Assumptions about the **environment** in which the organization operates
- Assumptions about the **specific mission** of the organization
- Assumptions about the **core competencies** required to accomplish the organization's mission

Four Requirements for a Theory of Any Organization

- Assumptions about *environment, mission* and *core competencies* must **fit reality**
- Assumptions have to **fit one another**
- The theory must be **known and understood throughout the organization**
- The theory has to be **constantly tested**, because it is always a *hypothesis*

Two Key Points

- You and other members of your organization *do* have a theory, whether or not you realize it, whether or not it is articulated and recognized
- Social change will eventually invalidate the theory of your organization; it is probably in the process of being invalidated now

Two Consequences

- If your theory of your organization is becoming invalid, **you will need to change it** to survive
- It is much more difficult to change a theory you don't realize you have than to change an articulated and recognized theory
- Therefore **it is vital to recognize and articulate your theory**

How to Adapt the Theory to Changing Conditions?

- Recognize the necessity of regularly subjecting the theory to **reality checks**
- Institutionalize *abandonment*; regularly put every policy, practice, product, and service “on trial for its life”
- Study “the rest of the world,” especially people/organizations **who “should” use your products and services but do not**

Early Warning Signs ...

- ... of the growing invalidity of an organization's theory
- **Rapid growth** of the organization assures that its theory is becoming invalid
- The **unexpected success**; consider it a failure of your theory and analyze
- The **unexpected failure**; subordinate “managerial ego” to analysis of causes

Generic Theory for the National Statistical Office

- What are the relevant assumptions about the **environment** of an NSO?
- What is the specific **mission** of the NSO?
- What **core competencies** an NSO requires to carry out its mission?
- Consider each in turn, and *be specific!*

The Environment

(What do we need to know about it?)

The Mission

(To do what? For Who? At Who's Expense?)

The Core Competencies

(What are they? Why are they needed?)

Conclusion

- “This isn’t my responsibility, it’s my *superior’s* responsibility”
- Perhaps; but understand the nature of *the knowledge organization*

Questions?
Comments?
Discussion?