CHAPTER 2

Describing the Organization for Design Purposes

2.1 Introduction

When you examine an organization that you do not know, you can look at it in a number of ways. You may gather information about what the organization actually does—the goods and services it provides. You may be told who the boss is and who makes the decisions. You may be shown an organizational chart. Many companies also have explicitly stated objectives that drive their strategy. This information tells you about the design of the organization, the way the organization is put together, who does what, and who talks with whom.

Organizational design begins with a description of the organization. This description cannot be arbitrary but must facilitate the design process itself. Concepts should be clear and precise, observable and measurable. Management must be able to implement the recommended organizational design. In this chapter we define the concepts that we use to describe an organization. We employ an information-processing concept as our fundamental view: an organization is viewed as an information-processing entity, and organizational design is the design of the information system and decision procedures. After an introduction to the case that is used throughout the book—the Scandinavian Airline Systems (SAS)—we review the information-processing view of organization. SAS provides a point of departure. We also introduce the basic concepts and terms: configuration, complexity, formalization, centralization, coordination and control. Finally, we return to SAS and use the concepts to describe its structure.

2.1.1 The Scandinavian Airline System (SAS)

The Scandinavian Airline System (SAS) is used as an illustration in each chapter in this book beginning with an introduction to the company and its history. In the final section of this chapter we show the various
organizational structures that SAS has used in its ongoing challenge with changes in competition, high operating costs, and strategic focus.

The three Scandinavian countries—Norway, Sweden and Denmark—are culturally close and have a strong tradition of cooperation and trade. This close connection forms the basis of cooperation rather than competition among the national airline companies. It is the origin of the SAS we know today.

Following World War II, the three countries' national companies were Det Norske Luftfartsselskab AS (DNL), Det Danske Luftfartsselskab A/S (DDL), and Svensk Intercontinental Lufttrafik AB (SILA). Even before World War II, there had been some talk about the three airline companies joining forces on the trans-Atlantic routes. After the war both DDL and DNL were in ruins and not ready for an alliance (Buraas, 1972, p. 47). SILA, on the other hand, was pushing hard to resume negotiations, but negotiations were laborious. Although there was a great deal of goodwill from all parties, negotiations nearly broke down several times. Nonetheless, on August 1, 1946, the three countries signed the agreement establishing a Scandinavian Airline System (SAS) (Buraas, 1972, p. 67).

Initially, cooperation concerned only the trans-Atlantic routes, which the three national airlines were serving already. The three airlines still would compete on the European routes, but with a certain understanding for each other. Even then, it was widely anticipated that the SAS agreement would be extended to other geographical areas. Such negotiations took place the next year because the airlines' mutual competition on the European market threatened to ruin their cooperation within SAS (Buraas, 1972, p. 15). European SAS (ESAS) was formed on April 18, 1948 (Buraas, 1972, p. 86). The SAS, now internally became overseas SAS (OSAS) and it continued as before. But ESAS cooperation did not work as planned because of problems encountered in the use of planes (Buraas, 1972, p. 86). In September 1948 DNL announced that it was resigning from ESAS but wished to remain a member of OSAS. This initiated new ways of thinking in order to save the established cooperation on the European routes. Swedish SILA had merged with AB Aerotransport, (ABA). The main idea was that SILA/ABA, DDL, and DNL should cease to be independent airlines and leave all flying to the alliance (Buraas, 1972, p. 94). The national airlines would participate only as coowner in a new consortium. The new airline should function as one company with one board of directors and one president.

The advantages of the new integrated airline were obvious. One management could now assume total responsibility rather than have responsibility divided among three national governments and the two managements of ESAS and OSAS, respectively. Excess flights on the common routes could be eliminated with this extended agreement, and