Foundations of Organization Structure

LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Identify the six elements of an organization's structure.
2. Identify the characteristics of a bureaucracy.
3. Describe a matrix organization.
4. Identify the characteristics of a virtual organization.
5. Show why managers want to create boundaryless organizations.
6. Demonstrate how organizational structures differ and contrast mechanistic and organic structural models.
7. Analyze the behavioral implications of different organizational designs.
8. Show how globalization affects organizational structure.

Instructor Resources

Instructors may wish to use the following resources when presenting this chapter:

- **Text Exercises**
  - OB IN THE NEWS   Siemens Simple Structure - Not (p. 525)
  - INTERNATIONAL OB   **Structural Considerations in Multinationals** (p. 528)
  - MYTH OR SCIENCE?   **" People Are Our Most Important Asset"** (p. 538)
  - POINT/COUNTERPOINT   Downsizing Improves Organizational Performance (p. 543)
  - *Experiential Exercise   Authority Figures* (p. 544)
  - *Ethical Dilemma*   How Much Should Directors Direct? (p. 544-545)
- **Text Cases**
  - Case Incident 1   Can A Structure Be Too Flat? (p. 545)
  - Case Incident 2: No Bosses at W. L. Gore & Associates (pp. 545-546)
- **Instructor's Choice**
  - **Applying the Concepts**
    - ➢ This section presents an exercise that is NOT found in the student's textbook. *Instructor's Choice* reinforces the text's emphasis through various activities. Some *Instructor's Choice* activities are centered around debates, group exercises, Internet research, and student experiences. Some can be used in-class in their entirety, while others require some additional work on the student's part. The course instructor may choose to use these at anytime throughout the

class—some may be more effective as icebreakers, while some may be used to pull together various concepts covered in the chapter.

WEB
EXERCISES

At the end of each chapter of this instructor's manual, you will find suggested exercises and ideas for researching the WWW on OB topics. The exercises "Exploring OB Topics on the Web" are set up so that you can simply photocopy the pages, distribute them to your class, and make assignments accordingly. You may want to assign the exercises as an out-of-class activity or as lab activities with your class.

Summary and Implications for Managers

The theme of this chapter has been that an organization's internal structure contributes to explaining and predicting behavior. That is, in addition to individual and group factors, the structural relationships in which people work has a bearing on employee attitudes and behavior.

What's the basis for the argument that structure has an impact on both attitudes and behavior? To the degree that an organization's structure reduces ambiguity for employees and clarifies concerns such as "What am I supposed to do?" "How am I supposed to do it?" "To whom do I report?" and "To whom do I go if I have a problem?" it shapes their attitudes and facilitates and motivates them to higher levels of performance.

Of course, structure also constrains employees to the extent that it limits and controls what they do. For example, organizations structured around high levels of formalization and specialization, strict adherence to the chain of command, limited delegation of authority, and narrow spans of control give employees little autonomy. Controls in such organizations are tight, and behavior tends to vary within a narrow range. In contrast, organizations that are structured around limited specialization, low formalization, wide spans of control, and the like provide employees greater freedom and, thus, are characterized by greater behavioral diversity.
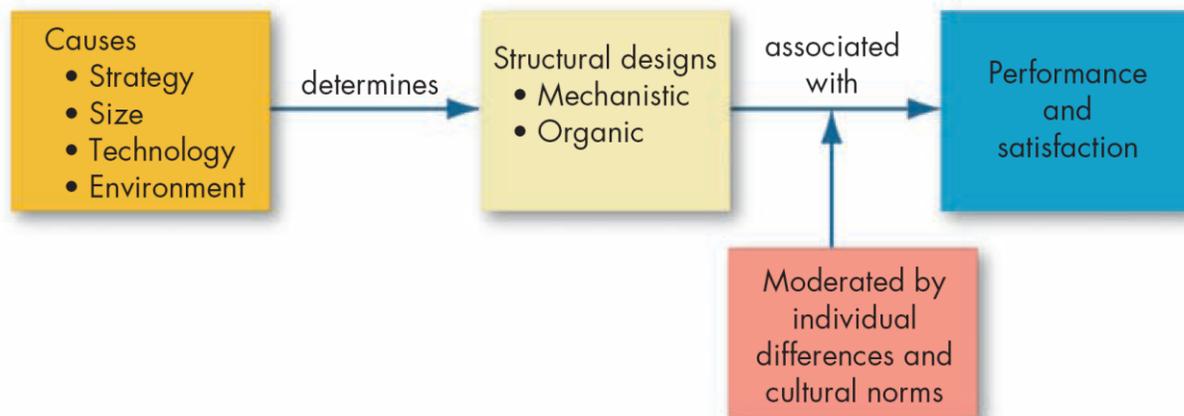
Exhibit 16-10 visually summarizes what we've discussed in this chapter. Strategy, size, technology, and environment determine the type of structure an organization will have. For simplicity's sake, we can classify structural designs around one of two models: mechanistic or organic. The specific effect of structural designs on performance and satisfaction is moderated by employees' individual preferences and cultural norms.

Finally, increasingly, technology is reshaping work such that organizational structures may be increasingly amorphous. This allows a manager the flexibility of taking into account things like employee preferences, experience, and culture so as to design work systems that truly motivate employees.

The chapter opens by suggesting that Ford needs substantial structural changes to survive Alan Mulally the CEO has his work cut out for him since Ford's stock price and market share have fallen steadily. Mulally says that Ford's organizational structure is archaic and he wants to centralize its operations to create a single worldwide organization. Managers were not encouraged to socialize with people outside their pay grade and employees did not share information. Innovation and creativity were stifled within the confines of the organizational structure.

Exhibit 16-10   Organization Structure: Its Determinants and Outcomes

Causes
- Strategy
- Size
- Technology
- Environment

→ determines →

Structural designs
- Mechanistic
- Organic

→ associated with →

Performance and satisfaction

↑ Moderated by individual differences and cultural norms

Brief Chapter Outline

I.   WHAT IS ORGANIZATIONAL STRUCTURE? (PPTs 16–2 to 16–10)
    A.   Introduction
- An organizational structure defines how job tasks are formally divided, grouped, and coordinated. (See Exhibit 16–1)
- There are six key elements:
  o   Work specialization
  o   Departmentalization
  o   Chain of command
  o   Span of control
  o   Centralization and decentralization
  o   Formalization

    B.   Work Specialization
- Managers also looked for other efficiencies that could be achieved through work specialization:
  o   For much of the first half of this century, managers viewed work specialization as an unending source of increased productivity. By the 1960s, there became increasing evidence that a good thing can be carried too far.
  o   Most managers today see work specialization as neither obsolete nor as an unending source of increased productivity. Managers recognize the economies it provides and the problems it creates when carried too far.

    C.   Departmentalization
- **Definition:** Grouping these jobs together so common tasks can be coordinated is called *departmentalization*.
- One of the most popular ways to group activities is by *functions* performed.
- Tasks can also be departmentalized by the *type of product* the organization produces.
- Another way to departmentalize is on the basis of *geography or territory*.
- *Process* departmentalization offers a basis for the homogeneous categorizing of activities.
- A final category of departmentalization is by *type of customer*.

D.   Chain of Command
- **Definition:** The *chain of command* is "an unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom."
  - *Authority*—"the rights inherent to management to give orders and expect the orders to be obeyed."
  - The *unity-of-command* principle helps preserve the concept of an unbroken line of authority. It states that a person should have only one superior to whom he/she is directly responsible.

E.   Span of Control
- How many employees a manager can efficiently and effectively direct is an important question.
  - Exhibit 16–3 illustrates that reducing the number of managers leads to significant savings.
  - However, at some point, wider spans reduce effectiveness.
- Narrow spans have three major drawbacks:
  - First, they are expensive because they add levels of management.
  - Second, they make vertical communication in the organization more complex.
  - Third, narrow spans of control encourage overly tight supervision and discourage employee autonomy.

F.   Centralization and Decentralization
- Centralization refers to the degree to which decision making is concentrated at a single point. A centralized organization is inherently different structurally from one that is decentralized.
- In a decentralized organization, action can be taken more quickly to solve problems, more people provide input into decisions, and employees are less likely to feel alienated.

G   Formalization
- Formalization refers to the degree to which jobs within the organization are standardized.
- The greater the standardization, the less input the employee has into how the job is done.
- Low formalization—job behaviors are relatively nonprogrammed, and employees have a great deal of freedom to exercise discretion in their work.

II.   COMMON ORGANIZATIONAL DESIGNS (PPTS 16–11 TO 16–14)
A.   The Simple Structure
- The simple structure is most widely practiced in small businesses in which the manager and the owner are one and the same. (See Exhibit 16–5, an organization chart for a retail men's store.)
- The strength of the simple structure lies in its simplicity. It is fast, flexible, inexpensive to maintain, and accountability is clear.
- One major weakness is that it is difficult to maintain in anything other than small organizations.
- The other weakness is that it is risky—everything depends on one person. Illness can literately destroy the information and decision making center of the company.

B.   The Bureaucracy
- Standardization—the key concept for all bureaucracies.
- The bureaucracy is characterized by:
  - Highly routine operating tasks achieved through specialization
  - Very formalized rules and regulations
  - Tasks that are grouped into functional departments
  - Centralized authority
  - Narrow spans of control

- o   Decision making that follows the chain of command
  C.   The Matrix Structure
  - It combines two forms of departmentalization—functional and product:
    - o   The strength of functional departmentalization—putting like specialists together and the pooling and sharing of specialized resources across products
    - o   Its major disadvantage is the difficulty of coordinating the tasks.
  - The most obvious structural characteristic of the matrix is that it breaks the unity-of-command concept. (Exhibit 16–6 shows the matrix form as used in a college of business administration.)

III.   NEW DESIGN OPTIONS (PPTs 16–15 to 16–18)
.   .
  A..   The Virtual Organization
  - The essence of the virtual organization is that it is typically a small, core organization that outsources major business functions:
    - o   Also referred to as modular or network organization
    - o   It is highly centralized, with little or no departmentalization.
  - When large organizations use the virtual structure, they frequently use it to outsource manufacturing. Companies like Nike, Reebok, L.L. Bean, and Dell Computer can do business without having to own manufacturing facilities.
  - Virtual organizations create networks of relationships that allow them to contract out business function where management feels that others can do it better or more cheaply.
  B.   The Boundaryless Organization
  - Characteristics
    - o   Seeks to eliminate chain of command
    - o   Opens span of control
    - o   Operates with empowered teams
    - o   Relies heavily on technology
  - Removing vertical boundaries
    - o   Flattens the organization structure
    - o   Increases cross-hierarchical teams
  - Removing horizontal boundaries
    - o   Increases interaction between departments
    - o   Increases cross-functional teams
  - Removing external boundaries
    - o   Blurs the line between organizations
    - o   An approach to building alliances
  - Increases telecommuting

IV.   WHY DO STRUCTURES DIFFER? (PPTs 16–19 to 16–20)
  A.   Introduction
  - There are two extreme models of organizational design—mechanistic and organic. (See Exhibit 16–8):
    - o   The *mechanistic model*—synonymous with the bureaucracy—has extensive departmentalization, high formalization, a limited information network (mostly downward), and little participation in decision making.
    - o   The *organic model* looks a lot like the boundaryless organization; it uses cross-hierarchical and cross-functional teams, low formalization, a comprehensive information network, and high participation in decision making.
  B.   Strategy
  - An organization's structure is a means to help management achieve its objectives. Objectives derive from the organization's overall strategy.

- Structure should follow strategy.
- An *innovation strategy* means a strategy for meaningful and unique innovations. This strategy may appropriately characterize 3M Company.
- A *cost-minimization strategy* tightly controls costs, refrains from incurring unnecessary innovation or marketing expenses, and cuts prices in selling a basic product. This describes Wal-Mart's strategy.
- An *imitation strategy* tries to capitalize on the best of both innovation and cost-minimization strategies:
- Exhibit 16–9 describes the structural option that best matches each strategy.

C.   Organizational Size
- There is considerable evidence to support that an organization's size significantly affects its structure.
- Large organizations—employing 2,000 or more people—tend to have more specialization, more departmentalization, more vertical levels, and more rules and regulations than do small organizations.

D.   Technology
- Technology is the process by which inputs are turned into outputs
- Technologies differ on their degree of routineness
  - Routine tasks are often in organizations with tall structures
  - If formalization in organizations is high, then routine technology will be accompanied by decentralization

E.   Environment
- An organization's structure is affected by its environment because of environmental uncertainty:
  - Some organizations face static environments—few forces in their environment are changing.
  - Other organizations face very dynamic environments—rapidly changing government regulations affecting their business, new competitors, difficulties in acquiring raw materials, etc.
- There are three key dimensions to organizational environment—capacity, volatility, and complexity.
  - Capacity
    - "The degree to which it can support growth."
  - Volatility
    - Refers to "the degree of instability in an environment characterized by a high degree of unpredictable change."
  - Complexity
    - "The degree of heterogeneity and concentration among environmental elements."

V.   ORGANIZATIONAL DESIGNS AND EMPLOYEE BEHAVIOR (PPT 16–21)
- One cannot generalize when linking organizational structures to employee performance and satisfaction. There is no predominant preference among employees.
  - Generally, work specialization contributes to higher employee productivity but reduces job satisfaction.
  - There seems to be no evidence to support a relationship between span of control and employee performance.

VI.   SUMMARY AND IMPLICATIONS FOR MANAGERS
A. An organization's internal structure contributes to explaining and predicting behavior
B. The organization's structure can also affect an individual's attitude
C. The structure is often defined by strategy, size, technology, and environment
D. Employees hold implicit models of the organization structure

Expanded Chapter Outline

I.   WHAT IS ORGANIZATIONAL STRUCTURE?
    A.   Introduction
- An organizational structure defines how job tasks are formally divided, grouped, and coordinated.
- There are six key elements:
    - Work specialization
    - Departmentalization
    - Chain of command
    - Span of control
    - Centralization and decentralization
    - Formalization

    B.   Work Specialization
- Henry Ford became rich and famous by building automobiles on an assembly line, demonstrating that work can be performed more efficiently by using a work specialization strategy.
    - Every Ford worker was assigned a specific, repetitive task.
    - By breaking jobs up into small standardized tasks, Ford was able to produce cars at the rate of one every ten seconds, while using employees who had relatively limited skills.
    - In essence, an entire job is broken into a number of steps, each completed by a separate individual.
- By the late 1940s, most manufacturing jobs in industrialized countries were being done this way. Management saw this as a means to make the most efficient use of its employees' skills.
- Managers also looked for other efficiencies that could be achieved through work specialization:
    - Employee skills at performing a task successfully increase through repetition.
    - Training for specialization is more efficient from the organization's perspective.
    - It increases efficiency and productivity, encouraging the creation of special inventions and machinery.
- For much of the first half of this century, managers viewed work specialization as an unending source of increased productivity. By the 1960s, there became increasing evidence that a good thing can be carried too far.
    - The human diseconomies from specialization—boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover—more than offset the economic advantages.
    - In such cases, enlarging the scope of job activities could increase productivity.
- Most managers today see work specialization as neither obsolete nor as an unending source of increased productivity. Managers recognize the economies it provides and the problems it creates when carried too far.

    C.   Departmentalization
- Grouping these jobs together so common tasks can be coordinated is called *departmentalization*.
- One of the most popular ways to group activities is by *functions* performed. For example, a manufacturing manager might organize his/her plant by separating engineering, accounting, manufacturing, personnel, and purchasing specialists into common departments.
    - The advantage to this type of grouping is obtaining efficiencies from putting like specialists together. Functional departmentalization achieves

- economies of scale by placing people with common skills and orientations into common units.

- Tasks can also be departmentalized by the *type of product* the organization produces.
  - o Procter & Gamble recently reorganized along these lines. Each major product—such as Tide, Pampers, Charmin, and Pringles—will be placed under the authority of an executive who will have complete global responsibility for that product.
  - o The major advantage to this type of grouping is increased accountability for product performance under a single manager.

- Another way to departmentalize is on the basis of *geography or territory*.
  - o The sales function, for instance, may have western, southern, mid-western, and eastern regions.

- *Process* departmentalization is exemplified by Reynolds Metals aluminum tubing plant where production is organized into five departments. This method offers a basis for the homogeneous categorizing of activities.
  - o Process departmentalization can be used for processing customers as well as products. For example, at the state motor vehicles office you might find:
    - ➢ Validation by motor vehicles division
    - ➢ Processing by the licensing department
    - ➢ Payment collection by the treasury department
  - o A final category of departmentalization is by *type of customer*.
    - ➢ Microsoft, for instance, recently reorganized around four customer markets: consumers, large corporations, software developers, and small businesses.
    - ➢ The assumption is that customers in each department have a common set of problems and needs that can best be met by having specialists for each.
  - o Large organizations may use all of the forms of departmentalization that we have described.
    - ➢ A major Japanese electronics firm organizes each of its divisions along functional lines—its manufacturing units around processes, its sales around seven geographic regions, and each sales region into four customer groupings.
    - ➢ Rigid, functional departmentalization is increasingly complemented by teams.

D.   Chain of Command

- Thirty years ago, the chain-of-command was a basic cornerstone in the design of organizations.
- The *chain of command* is "an unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom."
  - o It answers the questions: "To whom do I go if I have a problem?" and "To whom am I responsible?"
- Two complementary concepts: *authority* and *unity of command.*
  - o *Authority*—"the rights inherent to management to give orders and expect the orders to be obeyed."
  - o The *unity-of-command* principle helps preserve the concept of an unbroken line of authority. It states that a person should have only one superior to whom he/she is directly responsible.
    - ➢ Times change, and so do the basic tenets of organizational design. The concepts of chain of command have less relevance today because of technology and the trend of empowering employees.
    - ➢ A low-level employee today can access information in seconds that 30 years ago was available only to top managers.

       ➢   Similarly, computer technology increasingly allows employees anywhere in an organization to communicate with anyone else without going through formal channels.

       ➢   Cross-functional and self-managed teams and the creation of new structural designs make the unity-of-command concept less relevant.

Teaching Note: At this point in the lecture you may want to introduce the TEAM EXERCISE: *Authority Figures* found in the text and at the end of this chapter.   ■

E.   Span of Control
- How many employees a manager can efficiently and effectively direct is an important question.
- All things being equal, the wider or larger the span, the more efficient the organization.
- Exhibit 16–3 illustrates that reducing the number of managers leads to significant savings.
- Wider spans are more efficient in terms of cost.
- However, at some point, wider spans reduce effectiveness.
- Narrow or small spans have their advocates. By keeping the span of control to five or six employees, a manager can maintain close control.
- Narrow spans have three major drawbacks:
  - First, as already described, they are expensive because they add levels of management.
  - Second, they make vertical communication in the organization more complex.
  - Third, narrow spans of control encourage overly tight supervision and discourage employee autonomy.
- The trend in recent years has been toward wider spans of control.
  - They are consistent with recent efforts by companies to reduce costs, cut overhead, speed up decision making, increase flexibility, get closer to customers, and empower employees.
  - To ensure that performance does not suffer because of these wider spans, organizations have been investing heavily in employee training.

Teaching Note: At this point in the lecture you may want to introduce OB IN THE NEWS: *Siemens Simple Structure - Not* found in the text and at the end of this chapter. A suggestion for a class exercise follows.   ■

F.   Centralization and Decentralization
- *Centralization* refers to the degree to which decision making is concentrated at a single point in the organization. A centralized organization is inherently different structurally from one that is decentralized.
  - In some organizations, top managers make all the decisions. This is highly centralized.
  - The concept includes only formal authority.
  - The organization is centralized when top management makes the organization's key decisions with little or no input from lower-level personnel. The concept includes only formal authority.
- There are organizations where decision making is pushed down to those managers who are closest to the action. This is highly decentralized.
  - The more that lower-level personnel provide input, the more decentralization there is.

- o In a decentralized organization, action can be taken more quickly to solve problems, more people provide input into decisions, and employees are less likely to feel alienated.
- o There has been a marked trend toward decentralizing decision making. For example, Sears and JC Penney have given their store managers considerably more discretion on what merchandise to stock.

G. Formalization
- Formalization refers to the degree to which jobs within the organization are standardized.
- A highly formalized job gives the job incumbent a minimum amount of discretion over what is to be done, when it is to be done, and how he or she should do it. Employees can be expected always to handle the same input in exactly the same way.
- The greater the standardization, the less input the employee has into how the job is done.
- *Low formalization*—job behaviors are relatively nonprogrammed, and employees have a great deal of freedom to exercise discretion in their work.
- The degree of formalization can vary widely between organizations and within organizations.

II. COMMON ORGANIZATIONAL DESIGNS
A. The Simple Structure
- The simple structure is characterized most by what it is *not* rather than what it *is*:
  - o It is not elaborated.
  - o It has a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
  - o The simple structure is a "flat" organization; it usually has only two or three vertical levels.
  - o One individual has the decision-making authority.
- The simple structure is most widely practiced in small businesses in which the manager and the owner are one and the same. (See Exhibit 16–5, an organization chart for a retail men's store.)
- The strength of the simple structure lies in its simplicity. It is fast, flexible, inexpensive to maintain, and accountability is clear.
- One major weakness is that it is difficult to maintain in anything other than small organizations.
  - o It becomes increasingly inadequate as an organization grows because its low formalization and high centralization tend to create information overload at the top.
  - o When an organization begins to employ 50–100 people, it is very difficult for the owner-manager to make all the choices.
  - o If the structure is not changed and made more elaborate, the firm often loses momentum and can eventually fail.
- The simple structure's other weakness is that it is risky—everything depends on one person. Illness can literately destroy the information and decision making center of the company.
B. The Bureaucracy
- Standardization—the key concept for all bureaucracies.
- The bureaucracy is characterized by:
  - o Highly routine operating tasks achieved through specialization
  - o Very formalized rules and regulations
  - o Tasks that are grouped into functional departments
  - o Centralized authority
  - o Narrow spans of control
  - o Decision making that follows the chain of command

- Its primary strength is in its ability to perform standardized activities in a highly efficient manner.
  - o Putting like specialties together in functional departments results in economies of scale, minimum duplication of personnel and equipment, etc.
  - o Bureaucracies get by nicely with less talented and less costly middle- and lower-level managers.
- Weaknesses
  - o Specialization creates subunit conflicts; functional unit goals can override the organization's goals.
  - o Obsessive concern with following the rules

Teaching Note: At this point in the lecture you may want to introduce International OB: *Structural Considerations in Multinationals* found in the text and at the end of this chapter. ∎

C.   The Matrix Structure

- It is used in advertising agencies, aerospace firms, research and development laboratories, construction companies, hospitals, government agencies, universities, management consulting firms, and entertainment companies.
- It combines two forms of departmentalization—functional and product:
  - o The strength of functional departmentalization—putting like specialists together and the pooling and sharing of specialized resources across products
    - ➢ Its major disadvantage is the difficulty of coordinating the tasks.
    - ➢ Product departmentalization facilitates coordination.
    - ➢ It provides clear responsibility for all activities related to a product, but with duplication of activities and costs.
- The most obvious structural characteristic of the matrix is that it breaks the unity-of-command concept. (Exhibit 16–6 shows the matrix form as used in a college of business administration.)
- Its strength is its ability to facilitate coordination when the organization has a multiplicity of complex and interdependent activities:
  - o The dual lines of authority reduce tendencies of departmental members to protect their worlds.
  - o It facilitates the efficient allocation of specialists.
- The major disadvantages of the matrix lie in the confusion it creates, its propensity to foster power struggles, and the stress it places on individuals:
  - o Violation of unity-of-command concept increases ambiguity that often leads to conflict.
  - o Confusion and ambiguity also create the seeds of power struggles.
  - o Reporting to more than one boss introduces role conflict, and unclear expectations introduce role ambiguity.

Teaching Note: At this point in the lecture you may want to introduce the CASE INCIDENT: Can A Structure Be Too Flat?" found in the text and at the end of this chapter. A suggestion for how to use this in your class follows. ∎

III.   NEW DESIGN OPTIONS
.   A..   The Virtual Organization
- The essence of the virtual organization is that it is typically a small, core organization that outsources major business functions:
  - o Also referred to as modular or network organization
  - o It is highly centralized, with little or no departmentalization.
- The prototype of the virtual structure is today's movie-making organization:

- o   In Hollywood's golden era, movies were made by huge, vertically integrated corporations.
- o   Nowadays, most movies are made by a collection of individuals and small companies who come together and make films project by project.
- o   This structural form allows each project to be staffed with the talent most suited to its demands, rather than having to choose just from those people the studio employs.
- When large organizations use the virtual structure, they frequently use it to outsource manufacturing. Companies like Nike, Reebok, L.L. Bean, and Dell Computer can do business without having to own manufacturing facilities.
- Virtual organizations create networks of relationships that allow them to contract out business function where management feels that others can do it better or more cheaply.
- The virtual organization stands in sharp contrast to the typical bureaucracy in that it outsources many generic functions and concentrates on what it does best.
  - o   Exhibit 16–7 shows a virtual organization in which management outsources all of the primary functions of the business. The dotted lines in this exhibit represent those relationships typically maintained under contracts. In essence, managers in virtual structures spend most of their time coordinating and controlling external relations, typically by way of computer-network links.
- The major advantage to the virtual organization is its flexibility.
- The primary drawback is that it reduces management's control over key parts of its business.

B.   The Boundaryless Organization

- General Electric's former chairman, Jack Welch, coined the term *boundaryless organization.*
  - o   Welch wanted to turn his company into a "$60 billion family grocery store."
  - o   He wanted to eliminate vertical and horizontal boundaries and break down external barriers.
- The boundaryless organization seeks to eliminate the chain of command, have limitless spans of control, and replace departments with empowered teams.
- Because it relies so heavily on information technology, some call this structure the T-form (or technology-based) organization.
  - o   By removing vertical boundaries, management flattens the hierarchy and minimizes status and rank.
  - o   Uses cross-hierarchical teams
  - o   Uses participative decision-making practices
  - o   Uses 360-degree performance appraisals
- Functional departments create horizontal boundaries. The way to reduce these barriers is to:
  - o   Replace functional departments with cross-functional teams and organize around processes.
  - o   Use lateral transfers and rotate people into and out of different functional areas.
- The boundaryless organization also breaks down barriers to external constituencies (suppliers, customers, regulators, etc.) and barriers created by geography.
- The one common technological thread of boundaryless organization is networked computers:
  - o   E-mail enables employees to share information simultaneously and to communicate directly.

o   Many large companies are developing private nets or "intranets." Using the Internet and the World Wide Web, these private nets are internal communication systems.

IV.   WHY DO STRUCTURES DIFFER?
A.   Introduction
- The *mechanistic model*—synonymous with the bureaucracy—has extensive departmentalization, high formalization, a limited information network (mostly downward), and little participation in decision making.
  o   The *organic model* looks a lot like the boundaryless organization; it uses cross-hierarchical and cross-functional teams, low formalization, a comprehensive information network, and high participation in decision making.
  o   Why are some organizations structured along mechanistic lines while others are organic?

B.   Strategy
- An organization's structure is a means to help management achieve its objectives. Objectives derive from the organization's overall strategy.
- Structure should follow strategy.
- Most current strategy frameworks focus on three strategy dimensions— innovation, cost minimization, and imitation—and the structural design that works best with each.
- An *innovation strategy* means a strategy for meaningful and unique innovations. This strategy may appropriately characterize 3M Company.
- A *cost-minimization strategy* tightly controls costs, refrains from incurring unnecessary innovation or marketing expenses, and cuts prices in selling a basic product. This describes Wal-Mart's strategy.
- An *imitation strategy* tries to capitalize on the best of both innovation and cost-minimization strategies:
  o   It seeks to minimize risk and maximize opportunity for profit.
  o   It moves into new products or new markets only after viability has been proven by innovators.
  o   It copies successful ideas of innovators.
  o   Manufactures mass-marketed fashion goods that are rip-offs of designer styles
- Exhibit 16–9 describes the structural option that best matches each strategy:
  o   Innovators need the flexibility of the organic structure.
  o   Cost minimizers seek the efficiency and stability of the mechanistic structure.
  o   Imitators combine the two structures—a mechanistic structure (in order to maintain tight controls and low costs) and organic subunits (to pursue new lines of business).

C.   Organizational Size
- There is considerable evidence to support that an organization's size significantly affects its structure.
- Large organizations—employing 2,000 or more people—tend to have more specialization, more departmentalization, more vertical levels, and more rules and regulations than do small organizations.
- The impact of size becomes less important as an organization expands. Once an organization has around 2,000 employees, it's already fairly mechanistic. An additional 500 employees will not have much impact. However, adding 500 employees to a 300-employee firm is likely to result in a mechanistic structure.

D.   Technology

- The term refers to how an organization transfers its inputs into outputs.
- Every organization has at least one technology for converting financial, human, and physical resources into products or services.
  - Ford Motor Company predominantly uses an assembly-line process to make its products.
  - Colleges may use a number of instruction technologies—the ever-popular formal lecture method, the case analysis method, the experiential exercise method, the programmed learning method, etc. to educate its students.
- Technologies can be differentiated by degree of routineness:
  - Routine technologies are characterized by automated and standardized operations.
  - Nonroutine technologies are customized and include such varied operations as furniture restoring, custom shoemaking, and genetic research.
- The relationships between technology and structure:
  - Routine tasks are associated with taller and more departmentalized structures.
  - The relationship between technology and formalization, however, is stronger.
  - Routineness is associated with the presence of formalized documentation.
  - There is an interesting relationship between technology and centralization:
    - Routine technologies seem to be associated with a centralized structure.
    - Nonroutine technologies, which rely more heavily on the knowledge of specialists, would be characterized by delegated decision authority.
    - A more generalizable conclusion is that the technology-centralization relationship is moderated by the degree of formalization.
- Formal regulations and centralized decision making are both control mechanisms and substitutable:
  - Routine technologies associate with centralized control if there is a minimum of rules and regulations.
  - If formalization is high, routine technology can be accompanied by decentralization.

E.   Environment

- An organization's structure is affected by its environment because of environmental uncertainty:
  - Some organizations face static environments—few forces in their environment are changing.
  - Other organizations face very dynamic environments—rapidly changing government regulations affecting their business, new competitors, difficulties in acquiring raw materials, etc.
  - Static environments create significantly less uncertainty for managers than do dynamic ones.
- One way to reduce environmental uncertainty is through adjustments in the organization's structure.
- There are three key dimensions to organizational environment—capacity, volatility, and complexity. (See Exhibit 16–10)
  - *Capacity*
    - "The degree to which it can support growth."

> Rich and growing environments generate excess resources, which can buffer times of relative scarcity.
- *Volatility*
  - Refers to "the degree of instability in an environment characterized by a high degree of unpredictable change."
  - The environment is dynamic, making it difficult for management to predict accurately the probabilities associated with various decision alternatives.
  - At the other extreme is a stable environment.
- *Complexity*
  - "The degree of heterogeneity and concentration among environmental elements."
  - Simple environments are homogeneous and concentrated.
  - In contrast, environments characterized by heterogeneity and dispersion are called complex.
- Some general conclusions based on the three-dimensional definition of environment are:
  - The more scarce, dynamic, and complex the environment, the more organic a structure should be.
  - The more abundant, stable, and simple the environment, the more the mechanistic structure will be preferred.

Teaching Note: At this point in the lecture you may want to introduce the POINT/COUNTERPOINT: Downsizing Improves Organizational Performance found in the text and at the end of this chapter. A suggestion for a class exercise follows. ∎

OR

Teaching Note: At this point in the lecture you may want to introduce the MYTH OR SCIENCE? *"People Are Our Most Important Asset"* found in the text and at the end of this chapter. A suggestion for how to use this in your class follows. ∎

V. ORGANIZATIONAL DESIGNS AND EMPLOYEE BEHAVIOR
- One cannot generalize when linking organizational structures to employee performance and satisfaction. There is no predominant preference among employees.
  - Generally, work specialization contributes to higher employee productivity but reduces job satisfaction. Why?
    - Problems start to surface, and productivity begins to suffer when the human diseconomies of doing repetitive and narrow tasks overtake the economies of specialization.
    - Specialized jobs are still preferred by a segment of the workforce that prefers the routine and repetitiveness of highly specialized jobs.
    - Negative behavioral outcomes from high specialization are most likely to surface in professional jobs occupied by individuals with high needs for personal growth and diversity.
  - There seems to be no evidence to support a relationship between span of control and employee performance.
    - It is intuitively attractive to argue that large spans might lead to higher employee performance but the research fails to support this notion.
    - It is impossible to state what span of control is best for producing high performance or high satisfaction among employees.

> ➢ There is some evidence indicating that a manager's job satisfaction increases as the number of employees he or she supervises increases.
> o There is a fairly strong link between centralization and job satisfaction.
> > ➢ Generally, the less centralization, the greater the amount of participative decision making. Participative decision making is positively related to job satisfaction.
> > ➢ The decentralization-satisfaction relationship is strongest with employees who have low self-esteem. To maximize employee performance and satisfaction, individual differences—such as experience, personality, and the work task—should be taken into account.
> o In addition, national culture influences preference for structure so it, too, needs to be considered.
> o There is substantial evidence that individuals are attracted to, selected by, and stay with organizations that suit their personal characteristics.
> o The effect of structure on employee behavior is undoubtedly reduced where the selection process facilitates proper matching of individual characteristics with organizational characteristics.

> **Teaching Note:** At this point in the lecture you may want to introduce the ETHICAL DILEMMA: How Much Should Directors Direct? *Just Following Orders* found in the text and at the end of this chapter. A suggestion for a class discussion follows. ∎

VI.   SUMMARY AND IMPLICATIONS FOR MANAGERS
       A. An organization's internal structure contributes to explaining and predicting behavior
       B. The organization's structure can also affect an individual's attitude
       C. The structure is often defined by strategy, size, technology, and environment
       D. Employees hold implicit models of the organization structure

Text Exercises

OB IN THE **NEWS**

Siemens's Simple Structure—Not

There is perhaps no tougher task for an executive than to restructure a European organization. Ask former Siemens CEO Klaus Kleinfeld.

Siemens, with $114 billion in revenues in 2006 and branches in 190 countries, is one of the largest electronics companies in the world. Although the company has long been respected for its engineering prowess, it's also derided for its sluggishness and mechanistic structure. So when Kleinfeld took over as CEO, he sought to restructure the company along the lines of what Jack Welch did at General Electric. He has tried to make the structure less bureaucratic so that decisions are made faster. He spun off underperforming businesses. And he simplified the company's structure.

Kleinfeld's efforts drew angry protests from employee groups, with constant picket lines outside his corporate offices. One of the challenges of transforming European organizations is the active participation of employees in executive decisions. Half the seats on the Seimens board of directors are allocated to labor representatives. Not surprisingly, the labor groups did not react positively to Kleinfeld's GE-like

restructuring efforts. In his efforts to speed those efforts, labor groups alleged, Kleinfeld secretly bankrolled a business-friendly workers' group to try to undermine Germany's main industrial union.

Due to this and other allegations, Kleinfeld was forced out in June 2007 and replaced by Peter Löscher. Löscher has found the same tensions between inertia and the need for restructuring. Only a month after becoming CEO, Löscher was faced with a decision whether to spin off its underperforming $14 billion auto parts unit, VDO. Löscher has to weigh the forces for stability, who wish to protect worker interests, with U.S.-style pressures for financial performance. One of VDO's possible buyers is a U.S. company, TRW, the controlling interest of which is held by U.S. private equity firm Blackstone. Private equity firms have been called "locusts" by German labor representatives, so, more than most CEOs, Löscher has to balance worker interests with pressure for financial performance.

Source: Based on M. Esterl and D. Crawford, "Siemens CEO Put to Early Test," *Wall Street Journal*, July 23, 2007, p. A8; and J. Ewing, "Siemens' Culture Clash," *BusinessWeek*, January 29, 2007, pp. 42–46.

Class Exercise

1. Discuss with students the advantages and disadvantages of a manager's span of control from the perspective of the employee. Those with work experience will be able to share experiences concerning performance appraisals, supervision, assistance with questions, training, etc.
2. What can employees do when they find themselves in a situation where the manager has a wide span and has little time for him or her? Help the students to think of self help strategies such as: using email, finding a mentor, asking colleagues for assistance, being proactive (for example, completing your performance evaluation in advance and giving it to the boss to review), taking on new projects, etc.

International
OB
Structural Considerations in Multinationals

When bringing out a business innovation in any country, trudging through corporate bureaucracy can cause delays that result in a competitive disadvantage. This is especially true in China, one of the world's fastest-growing economies. Successful multinational corporations operating in China are realizing that the optimal structure is decentralized with a relatively high degree of managerial autonomy. Given that over 1.3 billion people live in China, the opportunity for businesses is tremendous, and as a result, competition is increasing. To take advantage of this opportunity, companies must be able to respond to changes before their competitors.

For example, Tyson Foods gives its vice president and head of the company's China operations, James Rice, the freedom to build the company's business overseas. While walking past a food vendor in Shanghai, Rice got the idea for cumin-flavored chicken strips. Without the need to obtain approval from upper management, Rice and his team immediately developed the recipe, tested it, and, after receiving a 90 percent customer-approval rating, began selling the product within 2 months of coming up with the idea.

Other companies that have implemented more formalized, bureaucratic structures have fared less well. One manager of a consumer electronics company who wanted to reduce the package size of a product to lower its cost and attract lower-income Chinese customers had to send the idea to his boss. His boss, the vice president of Asian operations, then sent the idea to the vice president of international operations, who in turn sent the idea to upper management in

the United States. Although the idea was approved, the process took 3 months, during which a competitor introduced a similarly packaged product.

So, when it comes to innovating in a dynamic, fast-paced economy such as China, decentralization and autonomy can be major competitive advantages for multinational companies. To gain this competitive advantage, companies like Tyson are empowering their overseas managers to make their own decisions.

Source: Based on C. Hymowitz, "Executives in China Need Both Autonomy and Fast Access to Boss," *The Wall Street Journal*, May 10, 2005, p. B.1.

Class Exercise

An instructor may wish to use this class exercise to engage students in a discussion concerning what variables multinations must consider when developing an appropriate organizational structure.

Myth *or* Science?	**"People Are Our Most Important Asset"**

Though this bromide has been expressed so often it arouses a cynical smirk on the faces of many, there is evidence that for most companies, it's true.

When we separate the U.S. economy into hard or tangible (manufacturing, real estate, etc.) and soft or intangible (medical care, communications, education) sectors, the soft industries provide 79 percent of all jobs and 76 percent of all U.S. GDP. Although this separation is far from perfect, it does suggest that the so-called knowledge worker is an increasingly important part of the economy. Yet, many organizational structures tend to be based on physical assets rather than intellectual resources.

For example, to return to the auto industry example, U.S. auto manufacturers focus their structure along physical assets—product lines or component systems—and outsource part-making or assembly to a small degree. Japanese auto manufacturers like Toyota or Honda, conversely, focus on developing the intellectual products in-house (design and engineering), and outsource some or most of manufacturing and assembly to the countries where they sell their products. It has been argued that these structural differences account for the intangible advantages (design, engineering) enjoyed by Japanese over U.S. automakers.

The authors of a recent study note: "While managing professional intellect is clearly the key to value creation and profitability for most companies, few have arrived at a systematic structures for developing, focusing, leveraging, and measure their intellectual capabilities."

So, even if most organizations argue that people are their most important asset, they aren't structured to make the maximum use of that asset.

Teaching Notes:

1.   Collect (for the class) the organizational chart/structure diagram of a small college and a large university. [Or use your university and then the structure of a college within the university.]
2.   Diagram each on the board, or create a handout that has them both on it, preferably on the same side.
3.   Discuss how each of the above four elements apply to each educational institution.
4.   Why would an academic institution, with a mission of learning and pressing "the envelope," adopt a bureaucratic structure?
5.   Is the small college as bureaucratic as the university? If it is, why is it?
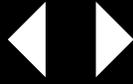
Point ◀ ▶ *Counterpoint*

Point

Downsizing Improves Organizational Performance

There aren't many leaders who like to downsize. Doing so always means inflicting pain on employees and enduring attacks by politicians, labor groups, and the media. But if there is one thing we have learned in the past 20 years, it's that downsizing has been an indispensable factor in making companies more competitive.

In the 1970s and 1980s, most companies in established countries such as the United States were overstaffed. That made them vulnerable to foreign competition from companies with lower labor costs and a better ability to quickly adapt to new economic conditions and technologies. It's perhaps inevitable that companies do this: Success breeds complacency and, when business is good, companies tend to overstaff and become bloated. Like the patient with a heart condition, they find the remedy is often painful, but fail to address it, and the eventual harm may be much worse.

Nearly all major U.S. companies that were around in the 1970s have shrunk their workforces and streamlined their operations. Look at IBM. Once one of the largest employers in the world, it often touted its no-layoff policy. But in the 1980s and 1990s, it became quite clear that IBM was too big, too complex, and spread too thin. Today, IBM is profitable again, but only after it shed nearly 100,000 jobs. Here is what former IBM CEO Lou Gerstner said about the need to restructure the company:

It got stuck because it fell victim to what I call the success syndrome. The more successful enterprises are the more they try to replicate, duplicate, codify what makes us great. And suddenly they're inward thinking. They're thinking how can we continue to do what we've done in the past without understanding that what made them successful is to take risks, to change and to adapt and to be responsive. And so in a sense success breeds its own failure. And I think it's true of a lot of successful businesses Layoffs and restructuring are rarely the popular things to do. But without it, most organizations would not survive, much less remain competitive.[1]

Counterpoint

Downsizing has become a sort of rite of passage for business leaders: You're not a real leader unless you've downsized a company. However, to separate fact from myth, let's look at the evidence. Do companies that have downsized perform better as a result?

To study this, a research team looked at *Standard & Poor's 500* (S&P 500) companies over 20 years. They asked whether reductions in employment at one period of time were associated with higher levels of financial performance at a later period in time.

What did they find? In analyzing 6,418 occurrences of changes in employment among the S&P 500, they found that downsizing strategies did *not* result in improved long-term financial performance (as measured by industry-adjusted return on assets). It's important to remember that the results control for prior financial performance and reflect financial performance after the downsizing efforts occurred.

The authors of this study don't argue that downsizing is always a bad strategy. Rather, the upshot is that managers shouldn't assume layoffs are a quick fix to what ails a company. In general, downsizing does *not* improve performance, so the key is to do it only when needed and to do it in the right way.

> What are some ways organizations can do this? First, they should use downsizing only as a last resort. Second, and related, they should inform employees about the problem, and give them a chance to contribute alternative restructuring solutions. Third, organizations need to bend over backward to ensure that employees see the layoff process as fair, including making sure the layoff criteria *are* fair (and ideally result from employee involvement), advance notice is given, and job relocation assistance is provided. Finally, make sure downsizing is done to good effect—not just to cut costs, but to reallocate resources to where they can be most effective.[2]

Class Exercise

Assign this as an out-of-class activity or go to the computing lab on campus and research as a class. This activity can be done using recent news and magazine articles in the library or on the WWW.

1. Ask the students to research three companies whose products and services are technologically oriented and who have three different structures. For example: Excite, Microsoft, IBM.
2. What is the industry saying about these organizations in terms of their degree of success, recent turmoil, new products, competitive forces, mergers and spin-offs, new products, etc. In which of these events or factors might the companies organizational structure played a role? Did it help or hinder the process? Can you ascertain what the organizational structure is from reading about the company?
3. Ask the students to make presentations on what they found. Once completed, ask them if there are similarities or patterns found based on organizational structure (or other factors). The point is to have students to begin to look for patterns—particularly best practices—rather than to see each organization's decisions and outcomes as completely unique to that organization.

Questions for Review

1. What are the six key elements that define an organization's structure?

> **Answer:** The structure is how job tasks are formally divided, grouped, and coordinated
> The 6 Key Elements that define an organization's structure are:
> Work specialization
> Departmentalization
> Chain of command
> Span of control
> Centralization and decentralization
> Formalization

2. What is a bureaucracy, and how does it differ from a simple structure?

> **Answer:** Bureaucracy is a complex structure that is comprised of highly operating routine tasks achieved through specialization, very formalized rules and regulations, tasks that are grouped into functional departments, centralized authority, narrow spans of control, and decision making that follows the chain of command   A simple structure is characterized by a low degree of departmentalization, wide spans of control, authority centralized in a single person and little formalization.

3. What is a matrix organization?

> **Answer:** The matrix structure is used in advertising agencies, aerospace firms, research and development laboratories, construction companies, hospitals, government agencies, universities, management consulting firms, and entertainment companies. It combines two forms of departmentalization: functional and product.

The matrix attempts to gain the strengths of both functional and product departmentalization, while avoiding their weaknesses. The most obvious structural characteristic of the matrix is that it breaks the unity-of-command concept. Employees in the matrix have two bosses—their functional department managers and their product managers. Therefore, the matrix has a dual chain of command.

The strength of the matrix lies in its ability to facilitate coordination when the organization has a multiplicity of complex and interdependent activities. It facilitates the efficient allocation of specialists. The matrix achieves the advantages of economies of scale by providing the organization with both the best resources and an effective way of ensuring their efficient deployment. The major disadvantages of the matrix lie in the confusion it creates, its propensity to foster power struggles, and the stress it places on individuals.

4. What are the characteristics of a virtual organization?

Answer: The Virtual Organization: The essence of the virtual organization is typically a small, core organization that outsources major business functions. It is highly centralized, with little or no departmentalization. Virtual organizations create networks of relationships that allow them to contract out manufacturing, distribution, marketing, or any other business function where management feels that others can do it better or more cheaply. The virtual organization stands in sharp contrast to the typical bureaucracy in that it outsources many generic functions and concentrates on what it does best. The major advantage to the virtual organization is its flexibility. The primary drawback is that it reduces management's control over key parts of its business.

5. How can managers create a boundaryless organization?

Answer: The Boundaryless Organization: The boundaryless organization seeks to eliminate the chain of command, have limitless spans of control, and replace departments with empowered teams. Because it relies so heavily on information technology, some call this structure the T-form (or technology-based) organization. By removing vertical boundaries, management flattens the hierarchy and:
•   Minimizes status and rank.
•   Uses cross-hierarchical teams.
•   Uses participative decision-making practices.
•   Uses 360-degree performance appraisals.
Functional departments create horizontal boundaries. The way to reduce these barriers is to replace functional departments with cross-functional teams and to organize activities around processes. When fully operational, the boundaryless organization also breaks down barriers to external constituencies (suppliers, customers, regulators, etc.) and barriers created by geography. The one common technological thread that makes the boundaryless organization possible is networked computers.

6. Why do organizational structures differ, and what is the difference between a mechanistic structure and an organic structure?

Answer: There are four reasons why structures differ.
1) Strategy -   - Innovation Strategy - A strategy that emphasizes the introduction of major new products and services. An organic structure may be best
  - Cost-minimization Strategy - A strategy that emphasizes tight cost controls, avoidance of unnecessary innovation or marketing expenses, and price cutting
 -   Imitation Strategy - A strategy that seeks to move into new products or new markets only after their viability has already been proven

2) Organizational Size - As organizations grow, they become more mechanistic, more specialized, with more rules and regulations

3) Technology - How an organization transfers its inputs into outputs
The more routine the activities, the more mechanistic the structure with greater formalization
Custom activities need an organic structure
4) Environment - Institutions or forces outside the organization that potentially affect the organization's performance
Three key dimensions: capacity, volatility, and complexity

7.   What are the behavioral implications of different organizational designs?

> **Answer:** It is impossible to generalize behavioral implications due to individual differences in the employees
> People seek and stay at organizations that match their needs.   Some of the research helps to understand some of the behavior such as ;
> Work specialization contributes to higher employee productivity, but it reduces job satisfaction.
> The benefits of specialization have decreased rapidly as employees seek more intrinsically rewarding jobs.
> The effect of span of control on employee performance is contingent upon individual differences and abilities, task structures, and other organizational factors.
> Participative decision making in decentralized organizations is positively related to job satisfaction.

8.   How does globalization affect organizational structure?
     .

> **Answer:** In terms of culture and organizational structure, many countries follow the U.S. model. U.S. management may be too individualistic. Culture may affect employee structure preferences. Cultures with high-power distance may prefer mechanistic structures. The boundaryless organization may be a solution to regional differences in global firms. It breaks down cultural barriers, especially in strategic alliances. Telecommuting also blurs organizational boundaries

Experiential Exercise
AUTHORITY FIGURES

Purpose

To learn about one's experiences with and feelings about authority

Time

Approximately 75 minutes

Procedure

1.   Your instructor will separate class members into groups based on their birth order. Groups are formed consisting of "only children," "eldest," "middle," and "youngest," according to placement in families. Larger groups will be broken into smaller ones, with four or five members, to allow for freer conversation.

2.   Each group member should talk about how he or she "typically reacts to the authority of others." Focus should be on specific situations that offer general information about how individuals deal with authority figures (for example, bosses, teachers, parents, or coaches). The group has 25 minutes to develop a written list of how the group generally deals with others' authority. Be sure to separate tendencies that group members share and those they do not.

3.   Repeat Step 2, except this time discuss how group members "typically act as authority figures." Again, make a list of shared characteristics.

4.   Each group will share its general conclusions with the entire class.

5.   Class discussion will focus on questions such as:

(a)   What patterned differences have surfaced between the groups?
(b)   What may account for these differences?
(c)   What hypotheses might explain the connection between how individuals react to the authority of others and how they act as authority figures?

Source: This exercise is adapted from W. A. Kahn, "An Exercise of Authority," *Organizational Behavior Teaching Review* XIV, no. 2, (1989–90), pp. 28–42. Reprinted with permission.

Ethical Dilemma
HOW MUCH SHOULD DIRECTORS DIRECT?

One critical structural element of most corporations is the board of directors. Nearly any organization of appreciable size has a board of directors. And formally at least, chief executives often report to the directors. Informally, however, many boards defer to the CEO and *advise* more than *direct.*

There is some evidence, though, that this cozy relationship is starting to change. Some directors are mingling with employees to get the 411 on any problems that are brewing. Others are opening communication channels with investors to hear their complaints. Some are even taking over responsibilities that used to be handled by the CEO, such as nominating new board members.

You might think an active board is always good for an organization. However, like most structural decisions, it has downsides and risks. When directors are empowered, they can become "free agents" who pursue their own agendas, including some that may be conflict with the CEO's. Or they may make statements or disclose information that goes against company interests. For example, when the AFL-CIO union secured a meeting with Home Depot director Bonnie Hill, some executives in the company were concerned that she might disclose private information. Though that didn't appear to be the case with Ms. Hill, one can envision some rogue board members undermining a CEO strategy they don't like through such communiqués. A final danger is the possibility that board members will micromanage a CEO's strategy. For example, when top management of one company went to the board with a proposal for executive bonuses, the board hired its own pay consultants. Such actions don't go over well with CEOs. As one said, "You don't need someone guiding your hand."

Questions

1.   How active do you think boards should be?

> **Answer:** Boards should be very active in assisting the CEO in running an efficient and profitable company. In light of the Enron scandal, boards are now held more accountable too.

2.   Should directors mix with employees to obtain company information from the ranks? Why or why not?

> **Answer:** This answer may vary. The pro to mixing with the ranks is to have an active dialogue with front line employees in order to improve the environment and

productivity. The motive must be pure though and not deceptive like to undermine senior management or the CEO.

3. When is the line between representing shareholders' interests and micromanaging or second-guessing the CEO?

> **Answer:** This line may be blurred but the board needs to remain objective and perform all duties and responsibilities in a professional, ethical and moral manner.

Source: Based on K. Whitehouse, "Move Over, CEO: Here Come the Directors," *Wall Street Journal*, October 9, 2006, pp. R1, R4 ?

Teaching Notes:

Lead a discussion on the above questions. You may want students to identify the strengths and weaknesses (or costs and benefits) of structuring an organization along the lines suggested in the case. You may also ask students what they see as the potential challenges associated with this type of structure. Finally, you may want to see whether students feel that there are size constraints in developing open structures such as this.

Case Incident 1

CAN A STRUCTURE BE *TOO* FLAT?

Steelmaker Nucor likes to think it has management figured out. And with good reason. It is the darling of the business press. Its management practices are often favorably reviewed in management texts. And it's been effective by nearly any business metric.

There's one fundamental management practice that Nucor doesn't appear to have mastered—how to structure itself.

Nucor has always prided itself on having just three levels of management separating the CEO from factory workers. With Nucor's structure, plant managers report directly to CEO Dan DiMicco. As Nucor continues to grow, though, DiMicco is finding it increasingly hard to maintain this simple structure. So, in 2006, DiMicco added another layer of management, creating a new layer of five executive vice presidents. "I needed to be free to make decisions on trade battles," he said.

Still, even with the new layer in its structure, Nucor is remarkably lean and simple. U.S. Steel Corp. employs 1,200 people at its corporate headquarters, compared to a scant 66 at Nucor's. At Nucor, managers still answer their own phone calls and e-mails, and the firm has no corporate jet. Even comparatively lean companies like Toyota appear fat and complicated compared to Nucor. "You're going to get at least ten layers at Toyota before you get to the president," says a former Toyota engineer.

Questions

1. How does the Nucor case illustrate the limitations of the simple organizational structure?

> **Answer:** With only a few layers of management, there is a wide span of control. As Nucor grows, this structure may prove inadequate due to information overload and decision making all centered on a few managers. In addition, any one essential manager that gets sick or is away from work for any period could be traumatic to the organization.

2. Do you think other organizations should attempt to replicate Nucor's structure? Why or why not?

> **Answer:** Although lean and simple, it may not be easy or effective to replicate it. Simple structures work best in smaller organizations because of its flexibility and simplicity.

3. Why do you think other organizations have developed much more complex structures than Nucor?

> **Answer:** Many organizations structure in a more bureaucratic way since it is a traditional structure. Being highly routine, many employees function better in structured and defined departments with specific rules and policies. Much can be learned from Nucor though, as they have been a leader in their industry.

4. Generally, organizational structures tend to reflect the views of the CEO. As more and more "new blood" comes into Nucor, do you think the structure will begin to look like that of other organizations?

> **Answer:** Probably, the structure will need to adjust to the growth of the company. New management often brings their styles and ideas with them from other companies and they may change the structure if they are not comfortable in a simple structure.

Case Incident 2
NO BOSSES AT W. L. GORE & ASSOCIATES

You've probably bought a garment made of W. L. Gore & Associates' flagship product, Gore-Tex, a fabric that blocks wind and water, yet is highly breathable thanks to Gore's patented technology. But you might not know that the company offers a host of other products, from heart patches and synthetic blood vessels to air pollution filters and fuel cells. In fact, W. L. Gore & Associates makes more than 1,000 products. Though its financial data are not publicly available, a spokesperson for the company said that Gore had double-digit revenue growth the past three years. With this type of performance and extensive product line, you might expect Gore to be structured like big companies such as General Electric, Microsoft, or 3M. But it's not, and it never was.

Wilbert L. Gore founded W. L. Gore & Associates in 1958. Gore believed that too much hierarchy and bureaucracy stifled creativity and adaptation, a view he formed during his 17-year career as a DuPont engineer. He stated once that "communication really happens in the car pool," meaning informal arenas allowed employees to share their ideas openly without fear of criticism from management. So Gore decided to eliminate the hierarchy found in most organizations. Instead, he instructed everyone to communicate openly, with little regard to status differences. In fact, Gore eliminated status differences altogether. At W. L. Gore & Associates, there are no job titles. Each employee works on projects collaboratively, while at the same time is given the freedom to develop new ideas. Ideas that are deemed worthy of pursuing by team members are then developed.

In addition to the lack of bureaucracy, Gore also kept his facilities staffed with a small number of employees to promote information sharing and foster teamwork. For example, he limited staffing at manufacturing plants to 200 employees, which is smaller than typical manufacturing firms. Gore believed the number was low enough for employees to get to know one another, allowing them to talk freely about their knowledge and ideas. The result of such a corporate structure has been tremendous growth and profit. Gore has also been an industry leader in innovation.

Gore's unique structure does take some getting used to, particularly for new employees. Diane Davidson recalls that the lack of a formal hierarchy was bewildering at first. As a sales executive in the apparel industry, Davidson was hired by Gore to promote its fabrics to designers such as Prada and Hugo Boss. States Davidson, "I came from a very traditional, male-dominated business—the men's shoe business. When I arrived at Gore, I didn't know who did what. I wondered how anything got done here. It was driving me crazy." Instead of a formal supervisor, Davidson was assigned to a "starting sponsor." As opposed to a traditional supervisor, the sponsor at Gore helps new hires learn the ropes—which primarily consist of getting to know one's team.

"Who's my boss." she repeatedly asked her sponsor. Her sponsor would reply, "Stop using the b-word."

Davidson eventually got used to Gore's structure. "Your team is your boss, because you don't want to let them down. Everyone's your boss, and no one's your boss," she explains. Not only are there no formal supervisors at Gore, but employees' job descriptions are conspicuously absent as well. Employees at Gore perform multiple tasks to create a new product. Davidson, for example, is involved in marketing, sales, and sponsorship—roles that typically are separated in other organizations. As John Morgan, an employee of Gore for more than 20 years, states, "You join a team and you're an idiot. It takes 18 months to build credibility. Early on, it's really frustrating. In hindsight, it makes sense. As a sponsor, I tell new hires, 'Your job for the first 6 months is to get to know the team,' but they have trouble believing it—and not contributing when other people are."

Questions

1.   How would you characterize Gore's organizational structure using terms from this chapter? For example, is it mechanistic or organic? How might this structure influence Gore's strategy?

   Answer: Organic, decentralized

2.   Considering what you know about individual differences such as personality, what types of employees might respond more or less favorably to Gore's lack of hierarchy?

   Answer: Individuals with high EI, extroverted, strong internal locus of control

3.   What are some advantages and disadvantages of Gore's structure from a company perspective? What about from an employee perspective?

   Answer: Divide the class into teams. Have some teams take on the role of the company while others take the role of employees. Have each team report back to the group.

4.   How might Gore's organizational design affect its relationships with external companies that are more hierarchical in nature?

   Answer: They may be more effective with organizations that were more "like" them. In terms of negotiating terms and compatible corporate cultures.

Source: Based on A. Deutschman, "The Fabric of Creativity," *Fast Company*, December 2004, pp. 54–62.

Instructor's Choice

Applying the Concepts

If one were to chart the growth spurts of Volkswagen over the past three decades, the chart would look like a roller coaster. Plans were for former BMW boss Bernd Pischetsrieder to fix ailing VW when he came aboard in 2002. However, best-laid plans often go astray. VW's share price is down almost 50% and profits fell by 36%. What is wrong at VW? First, VW has always been able to charge more for its cars because of quality, innovation, styling, and an implied lifetime guarantee. In recent years, however, consumers have decided that the company is going to have to come up with more value for the dollar if loyalty is to be retained. Second, sales in China's booming market (VW was one of the first car makers on the scene in this giant economy) have plummeted and GM has driven VW from its number one ranking. Third, cost-cutting moves have not worked. Fourth, VW uncharacteristically has labor pains. The CEO has had little luck in reversing these problems because his consensus management techniques are having little impact on VW's change-resistant bureaucracy. Over half of the company's 100 managers are not used to making their own decisions. This spells even more trouble for the company in the year ahead.

- Using a search engine of your own choosing, investigate Volkswagen's performance over the past two years. Write a brief summary of their fortunes and misfortunes.
- Visit the Volkswagen Web site at www.vw.com. From information supplied, characterize the company's existing structure.
- Based on what you have observed in "a" and "b" above, suggest a new organizational structure for the company. Cite any assumptions that you made when you developed your structure.

Instructor Discussion

Students will be able to find a wealth of information on VW (particularly negative information because of their recent performance). A nice summary article appears in *BusinessWeek* (see August 9, 2004 "Volkswagen Slips into Reverse" pp. 40). Students are free to pick any organizational form that they believe is best given the existing situation. However, they should be aware that the current CEO is not having much success with modern structures as the company seems to be very tradition-bound at present. Students might also interview a local VW dealer for opinions.

EXPLORING OB TOPICS ON THE WORLD WIDE WEB

Search Engines are our navigational tool to explore the WWW. Some commonly used search engines are:

www.goto.com	www.google.com	www.excite.com
www.lycos.com	www.hotbot.com	www.looksmart.com

1. The chapter discusses span of control and the various advantages and disadvantages of wide vs. narrow. Let us see how that looks in actual numbers. First, determine how many hierarchical levels there are in at least three organizations of varying sizes that you are currently involved with. One could be the college or university you attend, another where you work, and finally a club or religious institution you belong to. Or, for one of the choices, select a non-profit organization you have some interest in. (For example, Red Cross, MDS, American Cancer Society, etc.). Obtain their hierarchical structure either by searching the WWW (most annual reports have information on this), calling or visiting them, or drawing the structure yourself if you are involved in the organization. Use www.google.com to help you search.

2. We have learned that structure and span of control should relate to the organization's goals and strategies for achieving those goals. So how does an organization know if they are in alignment according to those principles? Often, the organization will conduct an audit. Read a report of one such audit at: http://www.metrokc.gov/auditor/1994/span.htm. Print the report and answer the following questions: What type of structure is King County? What goals do you think they have as an organization? On what did they base their conclusions? What do you think will happen next? Do you agree with the findings?

3. What factors influence virtual teams? For a short analysis point to: http://www.seanet.com/~daveg/articles.htm. Write a short paragraph or two outlining why you would or would not like working in a virtual environment. Do you see a time later in your career when you would prefer working in a virtual team? Why or why not?

ENDNOTES

[1] "In Focus: Lou Gerstner," *CNN World Business*, July 2, 2004, <URL>www.cnn.com</URL>.

[2] W. F. Cascio, "Strategies for Responsible Restructuring," *Academy of Management Executive* 19, no. 4 (2005), pp. 39–50.