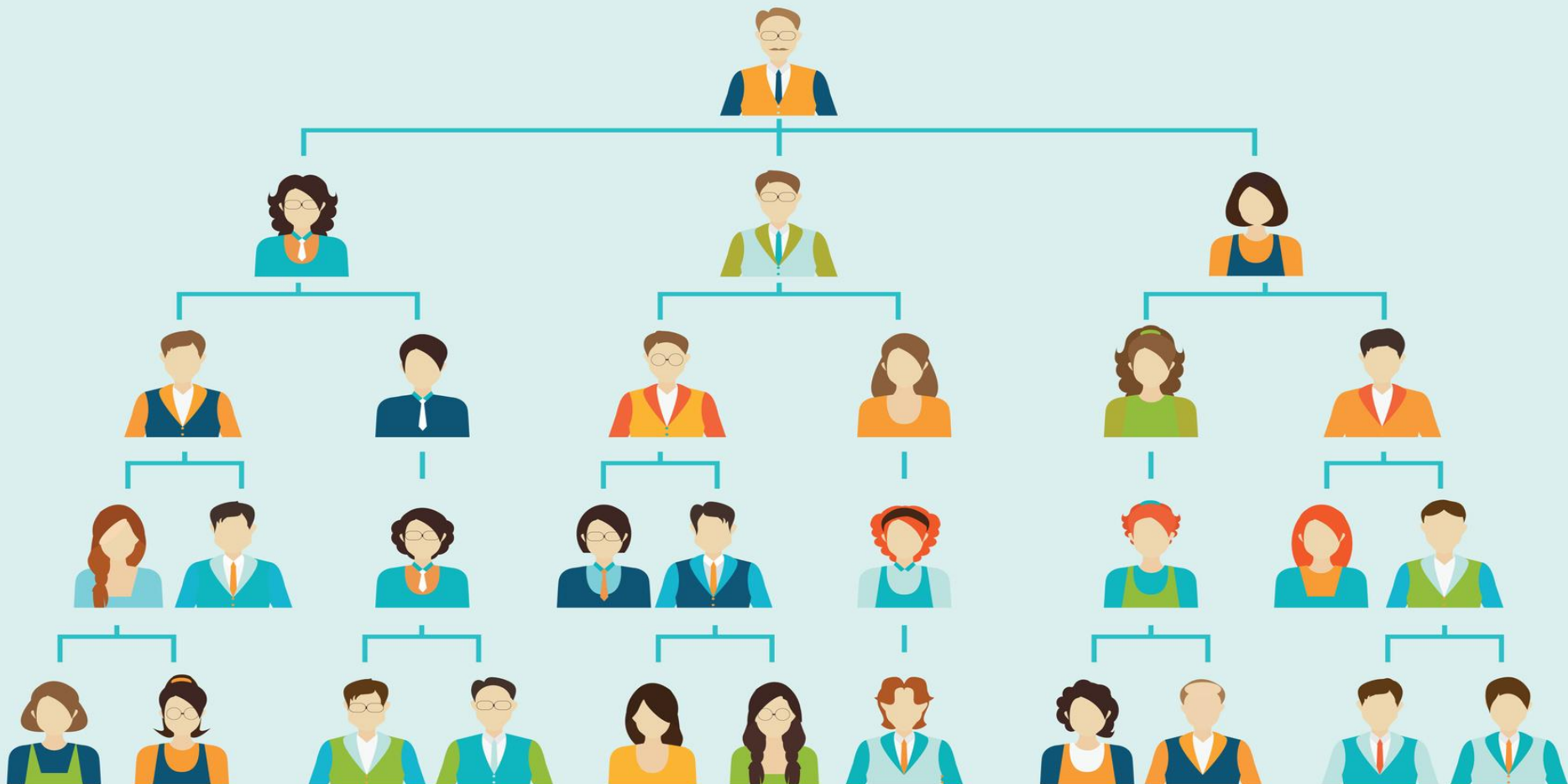# B0646 Fundamentals of Management

Organizational Culture and Structure

- *"What's your favorite movie?"*
- *"Your favorite website?"*
- *"What's the last book you read for fun?"*
- *"What makes you uncomfortable?"*

- These are the most frequently asked interview questions
- These questions might not have much to do with your performance in previous jobs
- Rather, they are designed to see whether you will fit in with the company's culture, or organizational culture

- Person-organization fit reflects the extent to which your personality and values match the climate and culture in an organization.
  - If being recognized for hard work is important to you, ask the interviewer how the company rewards performance.
  - If they answer "Well, we don't really have a policy on that"
  - You'll probably have a low person-organization fit and won't be happy working there.

- Recall that strategy consists of the large-scale action plans that reflect the organization's vision and are used to set the direction for the organization.
- To implement a particular strategy, managers must determine the right kind of organizational culture and organizational structure.

Organizational Culture

- Organizational culture (corporate culture), is the set of *shared, taken-for-granted implicit assumptions* that a group holds and that determines how it perceives, thinks about, and reacts to its various environments.

- Corporate culture includes
  - risk taking,
  - treatment of employees,
  - teamwork,
  - rules and regulations,
  - conflict and criticism,
  - Rewards
  - …
- What drives an organization's culture?
  - the values of the founder,
  - the industry and business environment,
  - the national culture,
  - the organization's vision and strategies,
  - and the behavior of leaders.
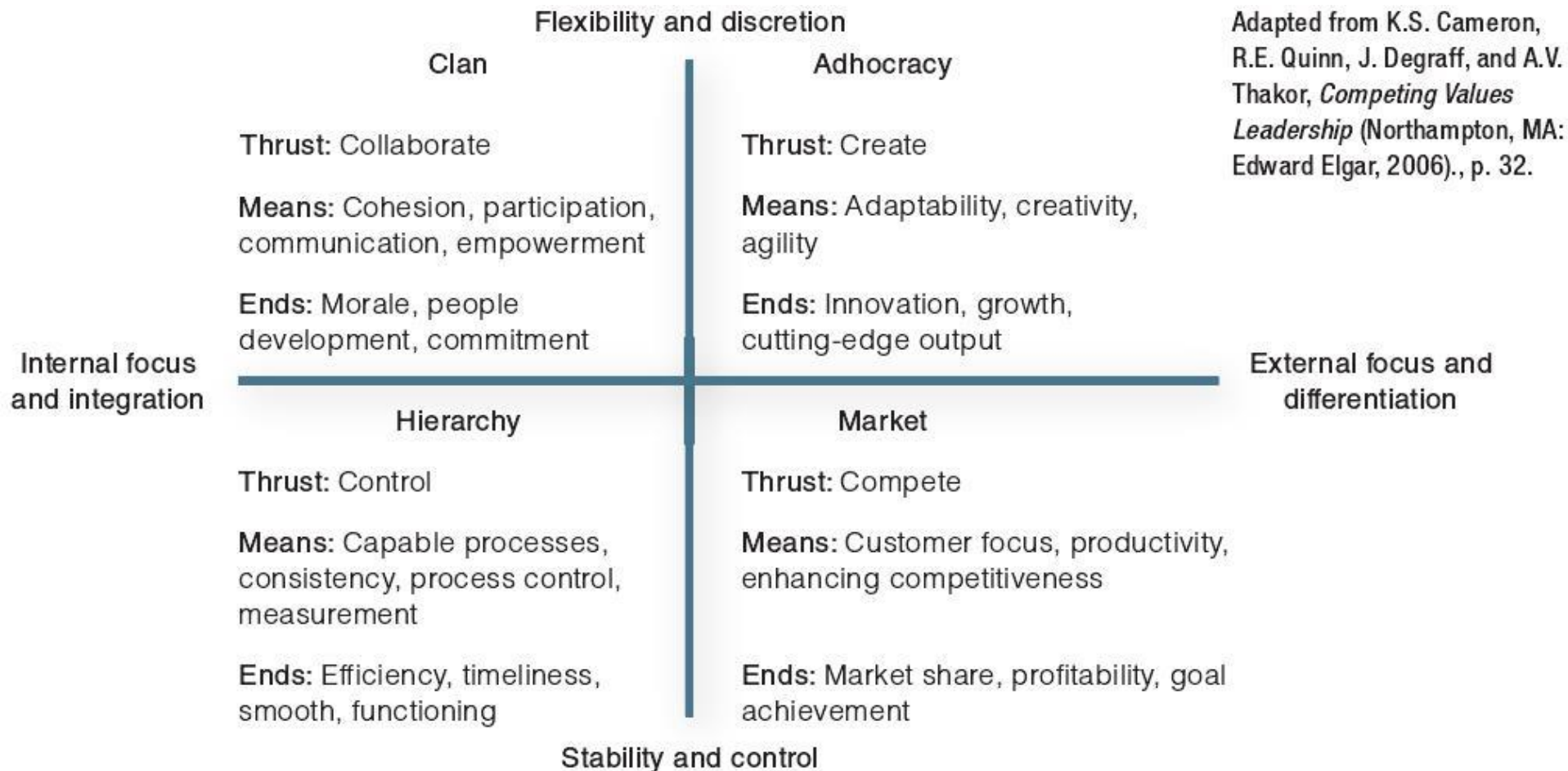
Organizational Structure

- **Organizational structure** is a system of *reporting relationships*
  - Organization's members are coordinated and motivated by OS to achieve the organization's goals.

- The challenge - align the *organization's vision and strategies* with its *organizational culture and organizational structure*.

Case - How Strategy Affects Culture & Culture Affects Structure: EndoStim, a Medical Device Start-up, Operates Virtually

- *Many people like the social interaction that comes with working in a physical office with other people.*
- *Others welcome the opportunity to do task-oriented work in a makeshift home office, occasionally having to cope with loneliness and restlessness.*
- Which would you favor?
  - working in the company office with others
  - working alone at home
- List five reasons for your choice

Types of Organizational Culture

Competing values framework

Flexibility and discretion

Clan

Thrust: Collaborate

Means: Cohesion, participation, communication, empowerment

Ends: Morale, people development, commitment

Adhocracy

Thrust: Create

Means: Adaptability, creativity, agility

Ends: Innovation, growth, cutting-edge output

Internal focus and integration

External focus and differentiation

Hierarchy

Thrust: Control

Means: Capable processes, consistency, process control, measurement

Ends: Efficiency, timeliness, smooth, functioning

Market

Thrust: Compete

Means: Customer focus, productivity, enhancing competitiveness

Ends: Market share, profitability, goal achievement

Stability and control

Adapted from K.S. Cameron, R.E. Quinn, J. Degraff, and A.V. Thakor, *Competing Values Leadership* (Northampton, MA: Edward Elgar, 2006)., p. 32.

1. Clan Culture – family atmosphere

- Internal focus and values flexibility.

- Devote considerable resources to hiring and developing their employees, and view customers as partners.

  – Southwest Airlines is a good example of a company with a clan culture.

  – So is online shoe seller Zappos, which encourages managers to spend 10%–20% of their off-work hours with employees.

2. Adhocracy Culture – little structure

- External focus and values flexibility.

- Well suited for start-up companies, those in industries undergoing constant change, and in need of innovation to enhance growth.
    - EndoStim in the case is a good example of a company with an adhocrary culture.
    - So was Google once. In earlier times, all Google engineers were urged to spend 20% of their time on personal projects.
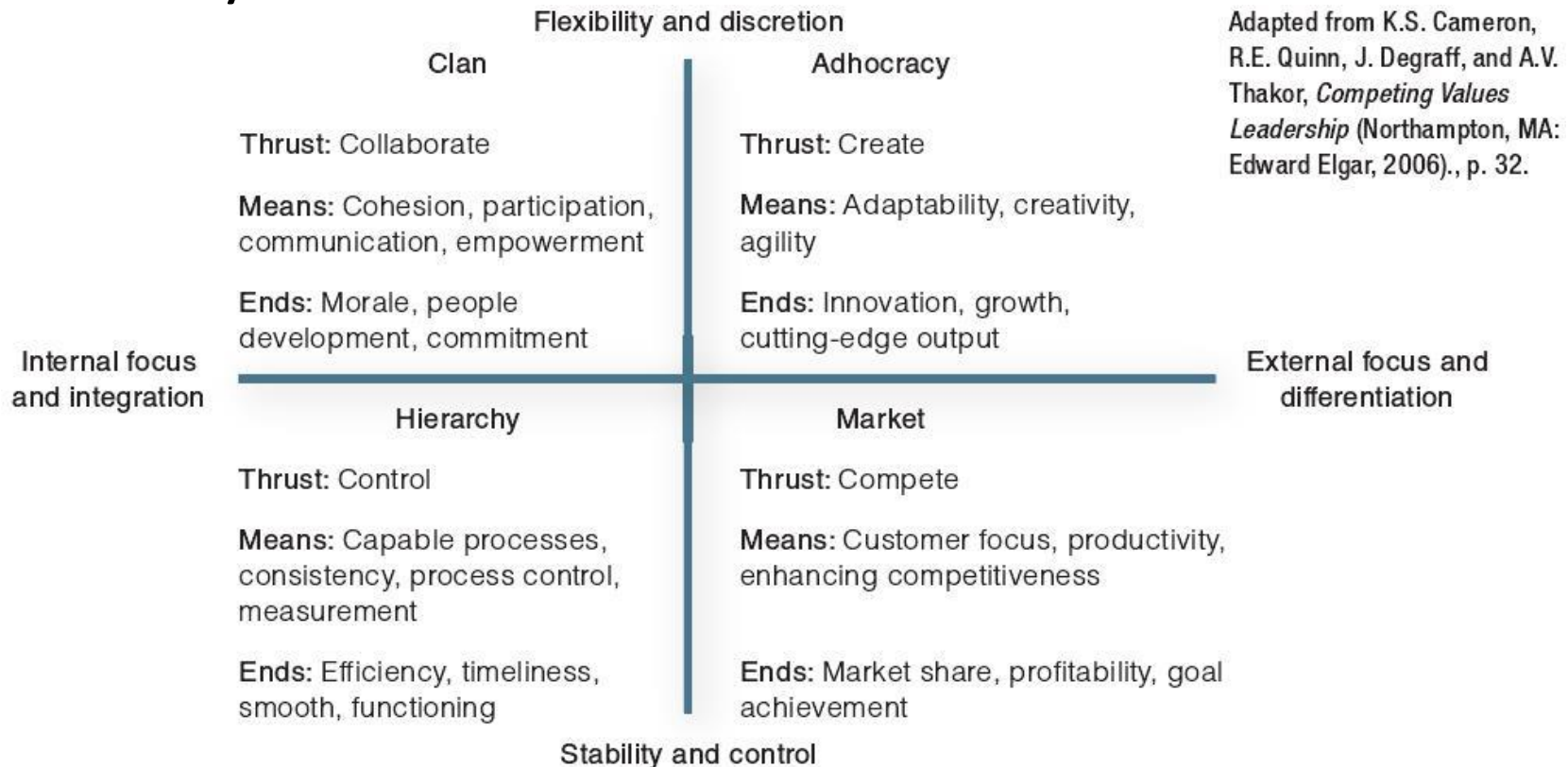
3. Market Culture – competition

- External focus and values stability.

- Employees are expected to work hard, react fast, and deliver quality work on time; performance-based reward.

  – Kia Motors, which fires executives who don't meet their sales goals, is an example of a company with a very aggressive and competitive market culture.

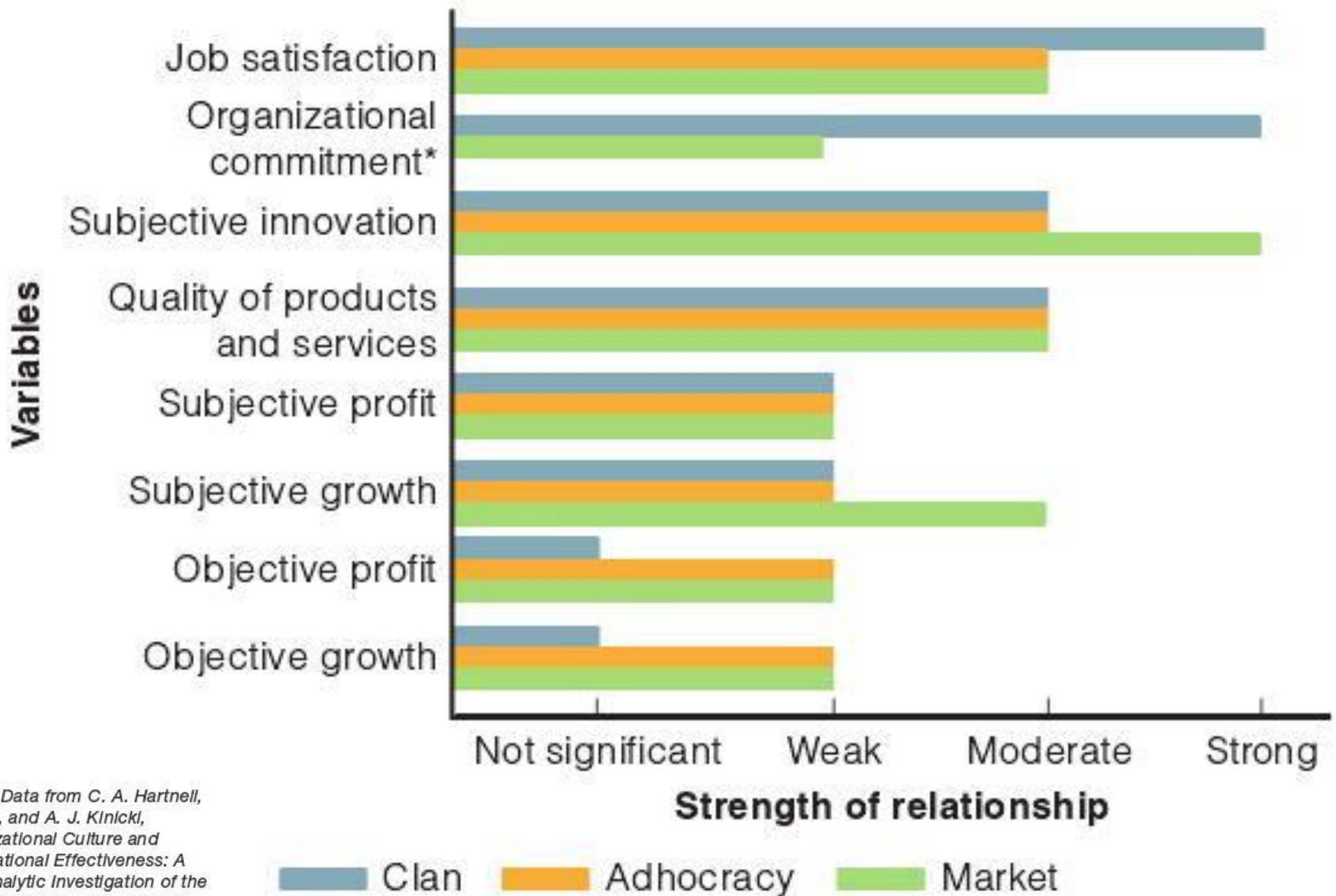 – So are some Wall Street firms, such as Citigroup.

4. Hierarchy Culture - control

- Internal focus and values stability.

- A drawback of such cultures is that they can lead to information "silos", in which different divisions don't share information.

  – Lots of big organizations, such as General Motors, UPS, and the U.S. Army, have a hierarchy culture.

Self-reflection question

- Based on the above descriptions, what type of culture provides the best person-organization fit for you?

- Why?

Flexibility and discretion

Clan	Adhocracy
Thrust: Collaborate	**Thrust:** Create
Means: Cohesion, participation, communication, empowerment	**Means:** Adaptability, creativity, agility
Ends: Morale, people development, commitment	**Ends:** Innovation, growth, cutting-edge output

Internal focus and integration

External focus and differentiation

Hierarchy	Market
Thrust: Control	**Thrust:** Compete
Means: Capable processes, consistency, process control, measurement	**Means:** Customer focus, productivity, enhancing competitiveness
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Stability and control

Adapted from K.S. Cameron, R.E. Quinn, J. Degraff, and A.V. Thakor, *Competing Values Leadership* (Northampton, MA: Edward Elgar, 2006)., p. 32.

Variables (vertical axis, top to bottom):
- Job satisfaction
- Organizational commitment*
- Subjective innovation
- Quality of products and services
- Subjective profit
- Subjective growth
- Objective profit
- Objective growth

Strength of relationship (horizontal axis): Not significant — Weak — Moderate — Strong

Legend: Clan, Adhocracy, Market

Source: Data from C. A. Hartnell, A. Y. Ou, and A. J. Kinicki, "Organizational Culture and Organizational Effectiveness: A Meta-Analytic Investigation of the Competing Values Framework's Theoretical Suppositions," *Journal of Applied Psychology,* *July 2011,* pp. 677–694.

– An organization's culture matters.

– Employees are happier with clan cultures.

– Elements of these cultures can be used to boost innovation and quality.

– Changing the organizational culture won't necessarily boost financial performance (but it might).

– Market cultures tend to produce better results.

Levels of Organizational Culture

- Level 1 - Observable Artifacts
- Physical manifestations such as manner of dress, awards, myths and stories about the company, rituals and ceremonies, and decorations, as well as visible behavior exhibited by managers and employees.
  - Example: In a conference room reserved for sensitive discussions, online travel company Kayak has a two-foot-high stuffed elephant named Annabelle—the "elephant in the room"—that is an artifact believed to bring forth more honest and constructive communications among employees (The expression "elephant in the room" is used in business and politics to mean an obvious truth that is either being ignored or going unaddressed.)

- Level 2 - Espoused Values
- The explicitly stated values and norms preferred by an organization, as may be put forth by the firm's founder or top managers.
  - Example: The founders of technology company Hewlett-Packard stressed the "HP Way," a collegial, egalitarian culture that gave as much authority and job security to employees as possible. Although managers may hope the values they espouse will directly influence employee behavior, employees don't always "walk the talk," frequently being more influenced by enacted values, which represent the values and norms actually exhibited in the organization.

- Level 3 - Basic Assumptions
- are not observable, represent the core values of an organization's culture—those that are taken for granted and, as a result, are difficult to change.
  - Example: Many founders of start-ups hate rules and red tape. College Hunks Hauling Junk, for instance, was co-founded by Nick Friedman with no formal policies about dress code, vacation, sick days, and other things because he envisioned "a real-life Never Land where work is always fun, and the culture is always stress-free." However, when the enterprise grew from a single cargo van to over 50 franchises, the freewheeling spirit made employees lose focus, and client service ratings, employee morale, and profitability all declined. The firm had to come up with rules and procedures while at the same time trying to "maintain a healthy balance of fun company culture with an accountable organization and team," Friedman said.

Ways to learn organizational culture

1. Symbols: an object, act, quality, or event that conveys meaning to others.

2. Stories: a narrative based on true events, which is repeated and sometimes embellished upon to emphasize a particular value.

3. Heroes: a person whose accomplishments embody the values of the organization.

4. Rites & Rituals: the activities and ceremonies, planned and unplanned, that celebrate important occasions and accomplishments in the organization's life.

Ways to change organizational culture

1. Formal statements

2. Slogans & sayings

3. Rites & rituals

4. Stories, legends, & myths

5. Leader reactions to crises

6. Role modeling, training, & coaching

7. Physical design

8. Rewards, titles, promotions, & bonuses

9. Organizational goals & performance criteria

10. Measurable & controllable activities

11. Organizational structure

12. Organizational systems & procedures

Types of Organization

■ For-profit organizations. These are formed to make money, or profits, by offering products or services.

■ Nonprofit organizations. These are formed to offer services to some clients, not to make a profit (examples: hospitals, colleges).

■ Mutual-benefit organizations. These are voluntary collectives whose purpose is to advance members' interests (examples: unions, trade associations).

Organization Chart

- A box-and-lines illustration showing *the formal lines of authority* and the organization's official positions or work specializations.

- Two kinds of information that organization charts reveal

  - the vertical hierarchy of authority—who reports to whom
  - the horizontal specialization—who specializes in what work

Organization chart
Example for a hospital.
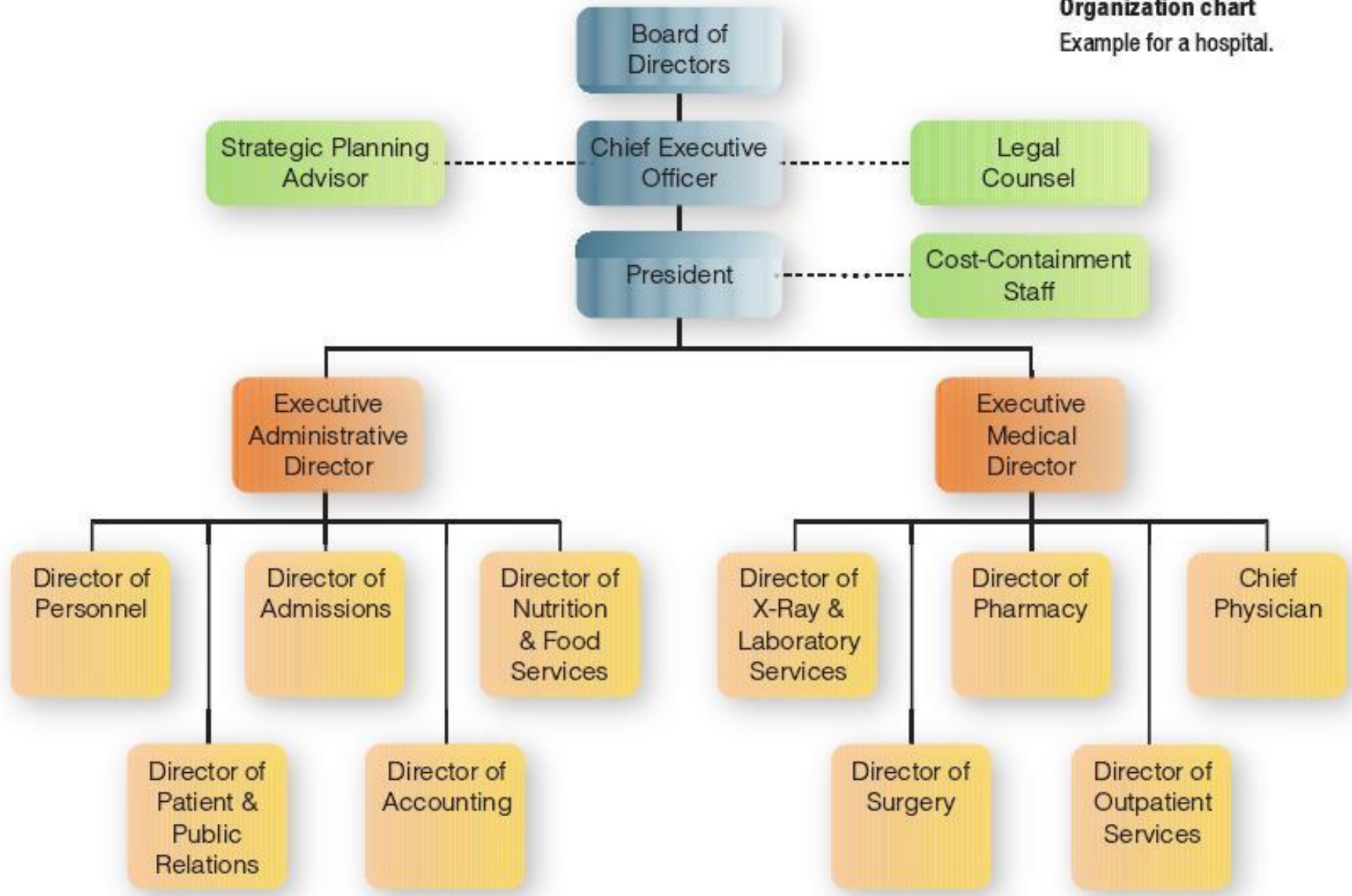
Common Organizational Elements

1. Common Purpose: unifies employees or members and gives everyone an understanding of the organization's reason for being.

2. Coordinated Effort: the coordination of individual efforts into a group or organization-wide effort to realize the common purpose.

3. Division of Labor: also known as work specialization, is the arrangement of having discrete parts of a task done by different people.

4. Hierarchy of Authority: or chain of command, is a control mechanism for making sure the right people do the right things at the right time.

- A flat organization: an organizational structure with few or no levels of middle management between top managers and those reporting to them.
- Unity of command: an employee should report to no more than one manager

Span of Control

- The span of control, or span of management, refers to the number of people reporting directly to a given manager.

- Narrow Span of Control: This means a manager has a limited number of people reporting
  - e.g., three vice presidents reporting to a president, instead of nine vice presidents.
  - An organization is said to be tall when there are many levels with narrow spans of control.

- Wide Span of Control: This means a manager has several people reporting
  - e.g., a first-line supervisor may have 40 or more subordinates
  - An organization is said to be flat when there are only a few levels with wide spans of control.

The trend of span of control

- Spans of about 7 to 10 subordinates were considered best, but there is no consensus as to what is ideal.

- In general, when managers must be closely involved with their subordinates, as when the management duties are complex, they are advised to have a narrow span of control.

  - *This is why presidents tend to have only a handful of vice presidents reporting to them.*

  - *By contrast, first-line supervisors directing subordinates with similar work tasks may have a wide span of control.*

- Today's lean management staffs and more efficiency means that spans of control need to be *as wide as possible* while still providing adequate supervision.
- Wide spans also allow workers greater autonomy in decision making.

Authority

- Authority refers to the rights inherent in a managerial position to make decisions, give orders, and utilize resources.
- Authority means accountability—managers must report and justify work results to the managers above them.
  - Being accountable means you have the responsibility for performing assigned tasks.
- Responsibility is the obligation you have to perform the tasks assigned to you.
- Delegation is the process of assigning managerial authority and responsibility to managers and employees lower in the hierarchy.

When Should You Delegate & When Not? How Managers Get More Done

All managers must learn how to delegate—to assign management authority and responsibilities to people lower in the company hierarchy. But failure to delegate can happen even with high-powered executives, including those you might least suspect—such as the president of Harvard University. Dr. Neil L. Rudenstine, who became president of Harvard in 1991, initially became so exhausted from overwork that he had to stay home for two weeks to recover. The incident sent a message that his future survival would depend on his ability to set priorities and delegate responsibility.[67]

"To do more in a day, you must do less—not do everything faster," says Oakland, California, productivity expert Odette Pollar.[68] If as a manager you find yourself often behind, always taking work home, doing your subordinates' work for them, and constantly having employees seeking your approval before they can act, you're clearly not delegating well. How do you decide when to delegate and when not to? Here are some guidelines:[69]

Delegate Routine & Technical Matters Always try to delegate routine tasks and routine paperwork. When there are technical matters, let the experts handle them.

Delegate Tasks That Help Your Subordinates Grow Let your employees solve their own problems whenever possible. Let them try new things so they will grow in their jobs.

Don't Delegate Confidential & Personnel Matters Any tasks that are confidential or that involve the evaluation, discipline, or counseling of subordinates should never be handed off to someone else.

Don't Delegate Emergencies By definition, an emergency is a crisis for which there is little time for solution, and you should handle this yourself.

Don't Delegate Special Tasks That Your Boss Asked You to Do—Unless You Have His or Her Permission If your supervisor entrusts you with a special assignment, such as attending a particular meeting, don't delegate it unless you have permission to do so.

Match the Tasks Delegated to Your Subordinates' Skills & Abilities While recognizing that delegation involves some risk, make your assignments appropriate to the training, talent, skills, and motivation of your employees.

YOUR CALL

Managers fail to delegate for many reasons.[70] An excessive need for perfection. A belief that only they should handle "special," "difficult," or "unusual" problems or clients. A wish to keep the parts of a job that are fun. A fear that others will think them lazy. A reluctance to let employees lower down in the hierarchy take risks. A worry that subordinates won't deliver. A concern that the subordinates will do a better job and show them up. Are any of these reasons why you might not be very good at delegating? What are some others?

Centralization versus Decentralization

Centralized authority: important decisions are made by higher-level managers.

- Very small companies tend to be the most centralized, although nearly all organizations have at least some authority concentrated at the top of the hierarchy.
- Kmart and McDonald's.
- Advantage: less duplication of work; procedures are uniform and thus easier to control

Decentralized authority: important decisions are made by middle-level and supervisory-level managers.

- Power has been delegated throughout the organization.
- General Motors and Harley-Davidson.
- Advantage: decisions are made more quickly, which increases the organization's flexibility and efficiency.

Organizational Structure

- Organizational design is concerned with designing the optimal structures of accountability and responsibility that an organization uses to execute its strategies.

- We may categorize organizational designs as three types:

  (1) Traditional designs
  - The simple structure
  - The functional structure
  - The divisional structure
    - Product division
    - Customer division
    - Geographic division
  - Matrix structure

  (2) Horizontal designs

  (3) Open boundary designs
  - Hollow structure
  - Modular structure
  - Virtual structure

Traditional Designs
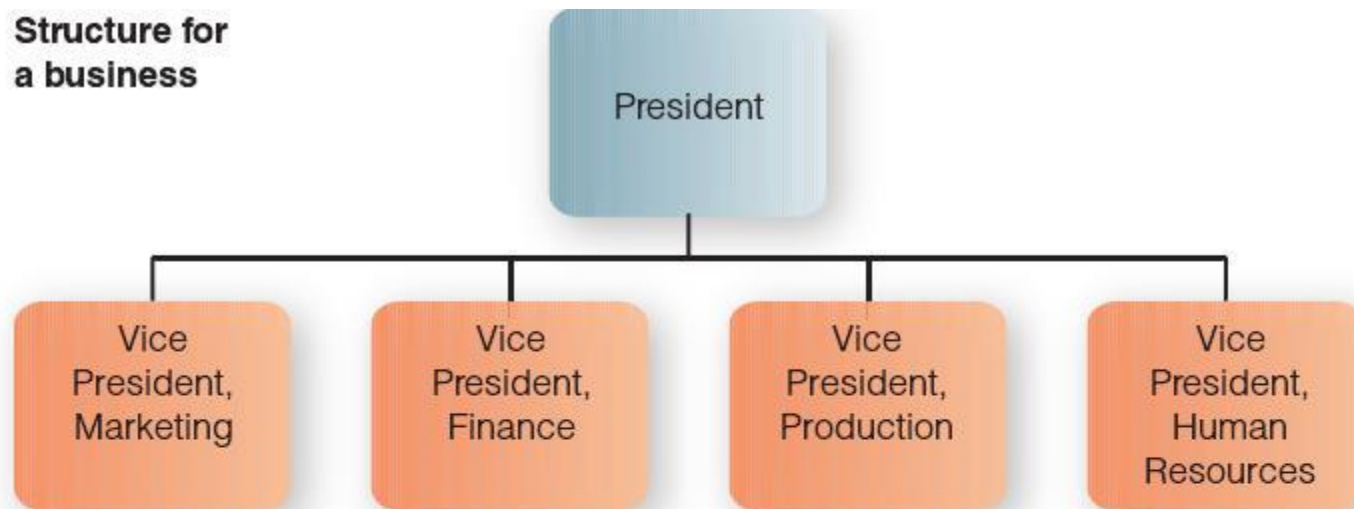
The Simple Structure: For the Small Firm

- A simple structure has authority centralized in a single person, a flat hierarchy, few rules, and low work specialization.
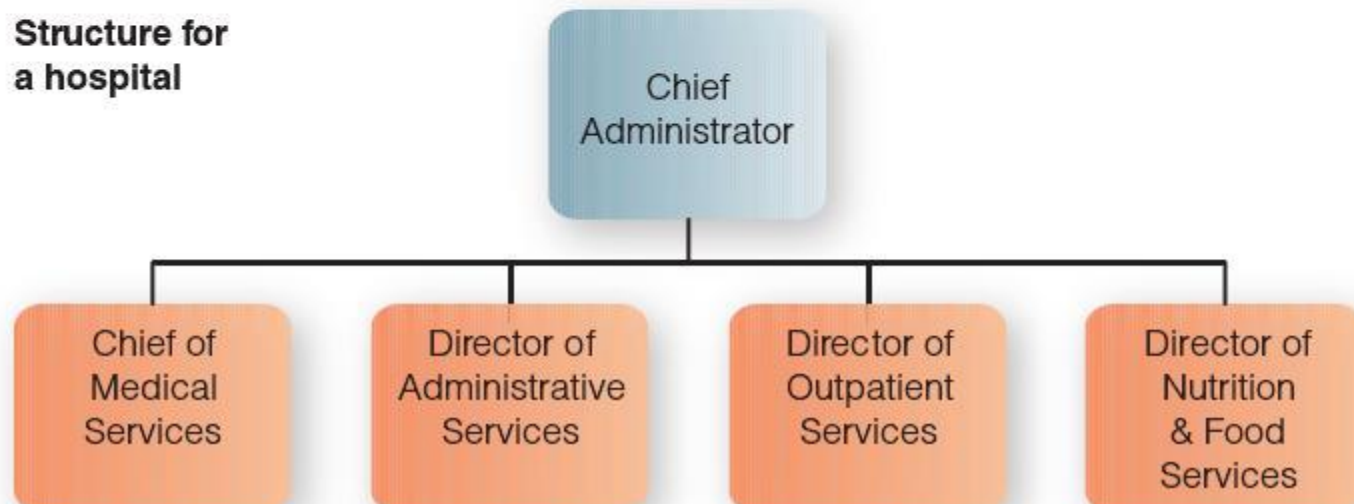
The Functional Structure: Grouping by Similar Work Specialties

- In a functional structure, people with similar occupational specialties are put together in formal groups.
- This is a quite commonplace structure, seen in all kinds of organizations
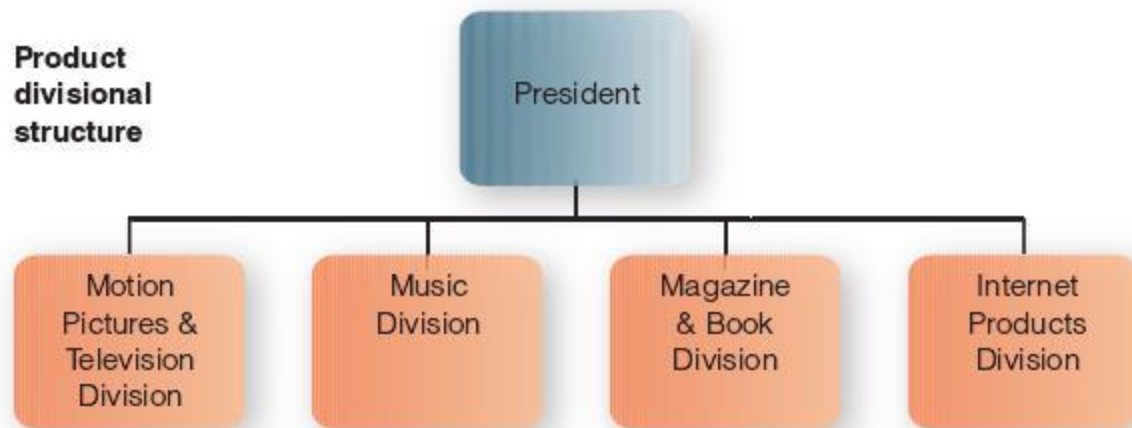
Structure for a business

```
                          President
                              |
    ┌──────────────┬──────────┴──────────┬──────────────┐
    │              │                     │              │
   Vice          Vice                  Vice           Vice
President,     President,            President,      President,
Marketing      Finance              Production        Human
                                                    Resources
```

Structure for a hospital

```
                      Chief
                   Administrator
                         |
    ┌──────────────┬─────┴─────────┬──────────────┐
    │              │               │              │
  Chief of     Director of     Director of    Director of
  Medical     Administrative   Outpatient      Nutrition
  Services      Services        Services       & Food
                                               Services
```
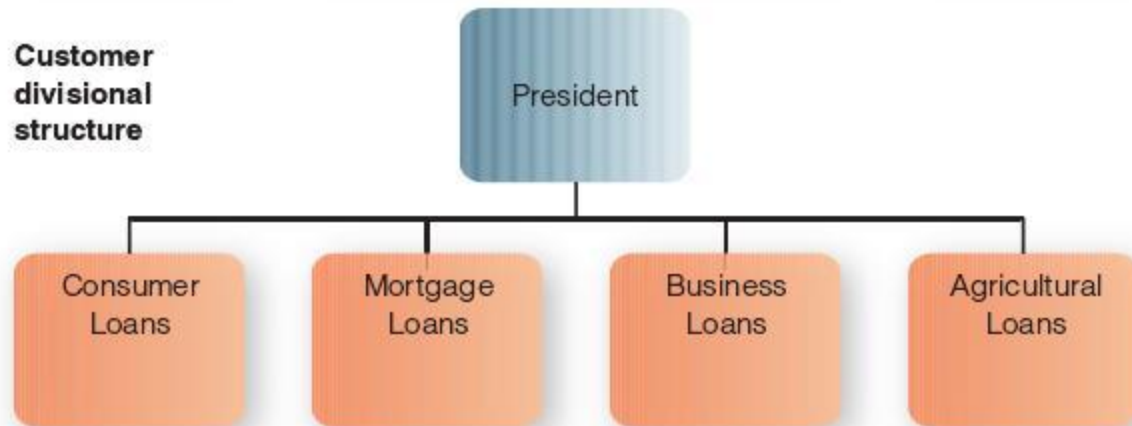
The Divisional Structure: Grouping by Similarity of Purpose

- In a divisional structure, people with diverse occupational specialties are put together in formal groups by similar products or services, customers or clients, or geographic regions.

- Product divisions group activities around similar products or services.
  - Examples: The media giant Time Warner.

- Customer divisions tend to group activities around common customers or clients.
  - Examples: Ford Motor.

- Geographic divisions group activities around defined regional locations.
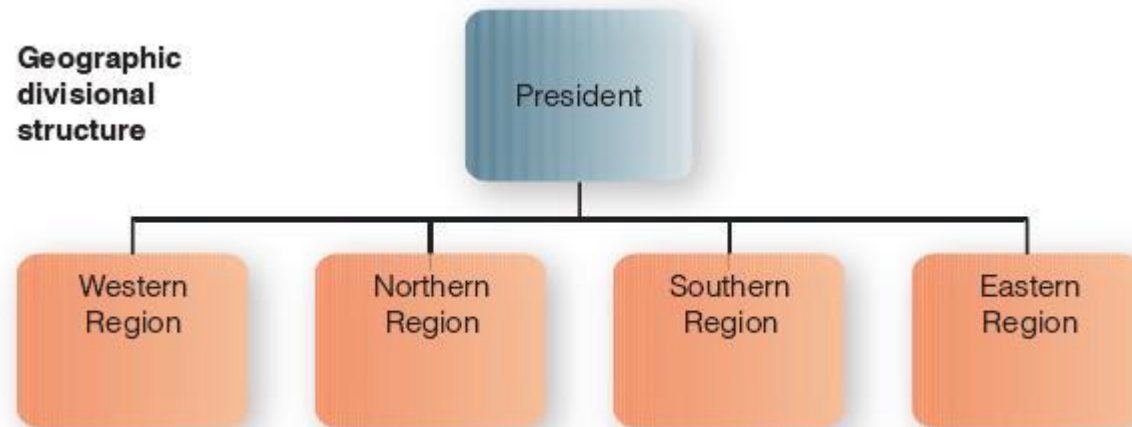 - Example: The Federal Reserve Bank

Product divisional structure

- President
  - Motion Pictures & Television Division
  - Music Division
  - Magazine & Book Division
  - Internet Products Division

Customer divisional structure

- President
  - Consumer Loans
  - Mortgage Loans
  - Business Loans
  - Agricultural Loans

Geographic divisional structure

- President
  - Western Region
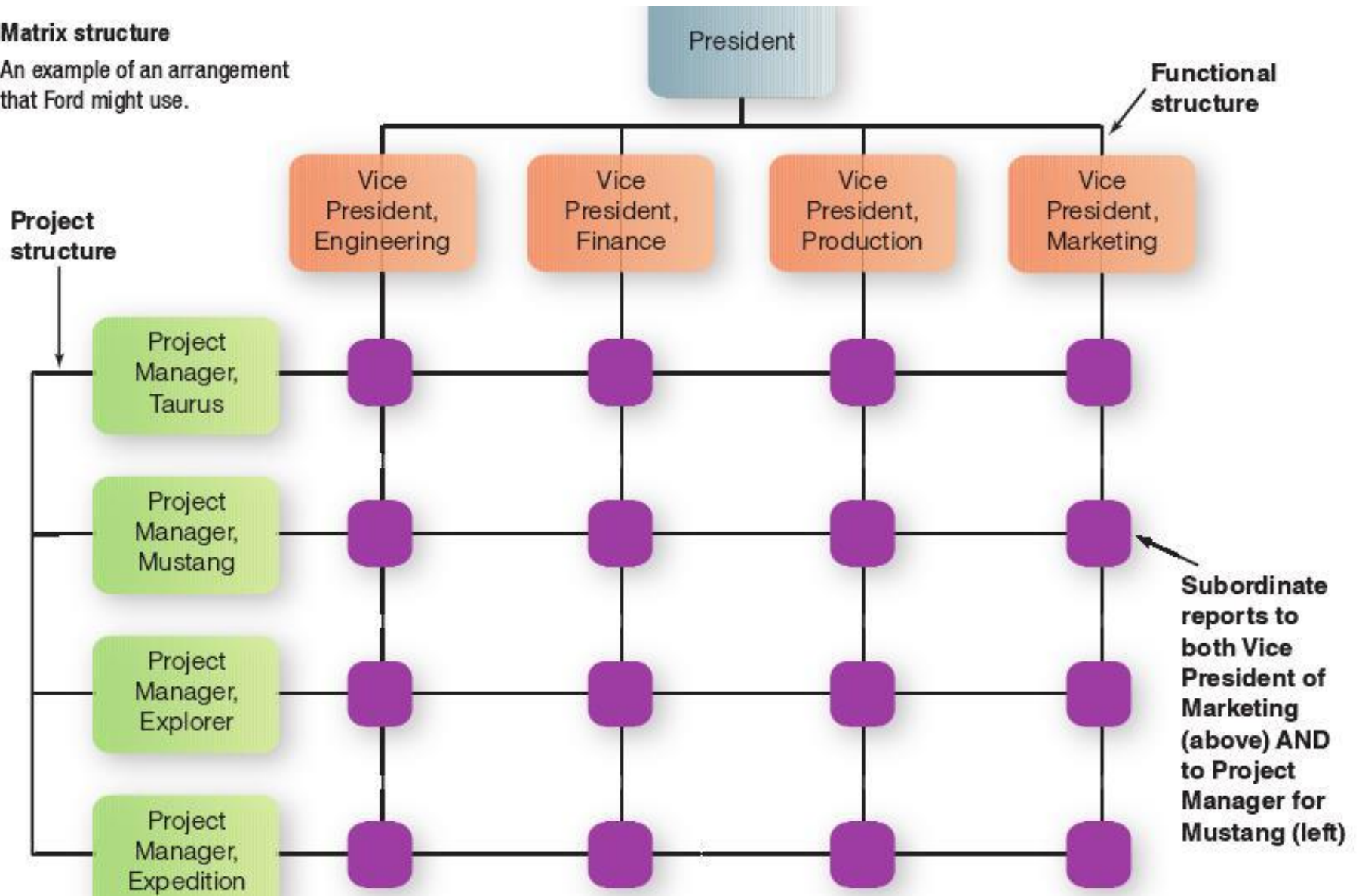 - Northern Region
  - Southern Region
  - Eastern Region

The Matrix Structure: A Grid of Functional & Divisional Structure

- In a matrix structure, an organization combines functional and divisional chains of command in a grid so that there are two command structures—vertical and horizontal.

- The functional structure usually doesn't change, such as Finance, Marketing, Production, and Research & Development.

- The divisional structure may vary—as by product/brand, customer, or geographic region.
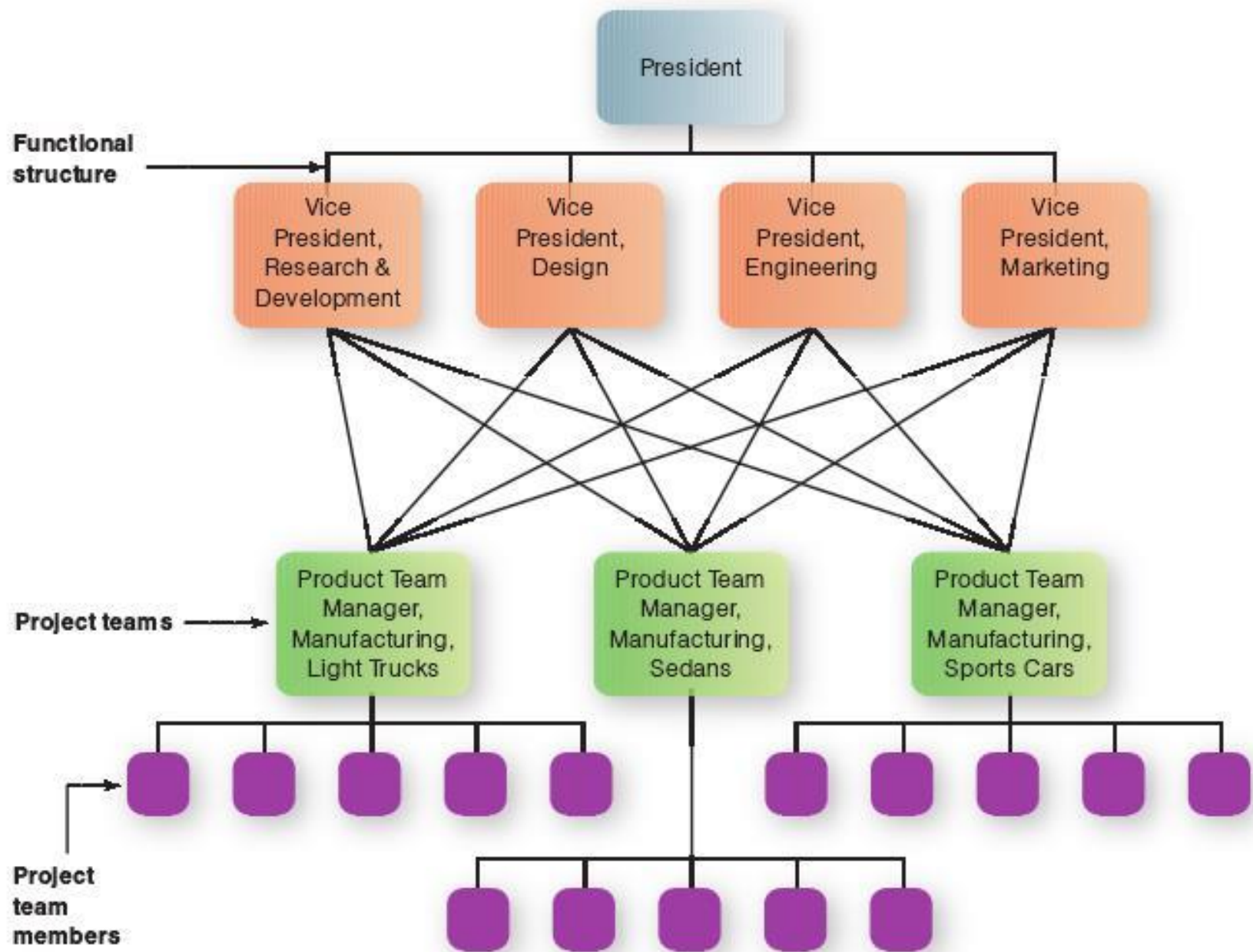
Matrix structure

An example of an arrangement that Ford might use.

President

Functional structure

Project structure

Vice President, Engineering

Vice President, Finance

Vice President, Production

Vice President, Marketing

Project Manager, Taurus

Project Manager, Mustang

Project Manager, Explorer

Project Manager, Expedition

Subordinate reports to both Vice President of Marketing (above) AND to Project Manager for Mustang (left)

The Horizontal Design

- A team-based design, or cross-functional teams or workgroups, are used to improve collaboration and work on shared tasks by breaking down internal boundaries.

- Team members still have their full-time functional work responsibilities and often still formally report to their own managers above them in the functional-division hierarchy.

Functional structure

President

Vice President, Research & Development

Vice President, Design

Vice President, Engineering

Vice President, Marketing

Project teams

Product Team Manager, Manufacturing, Light Trucks

Product Team Manager, Manufacturing, Sedans

Product Team Manager, Manufacturing, Sports Cars
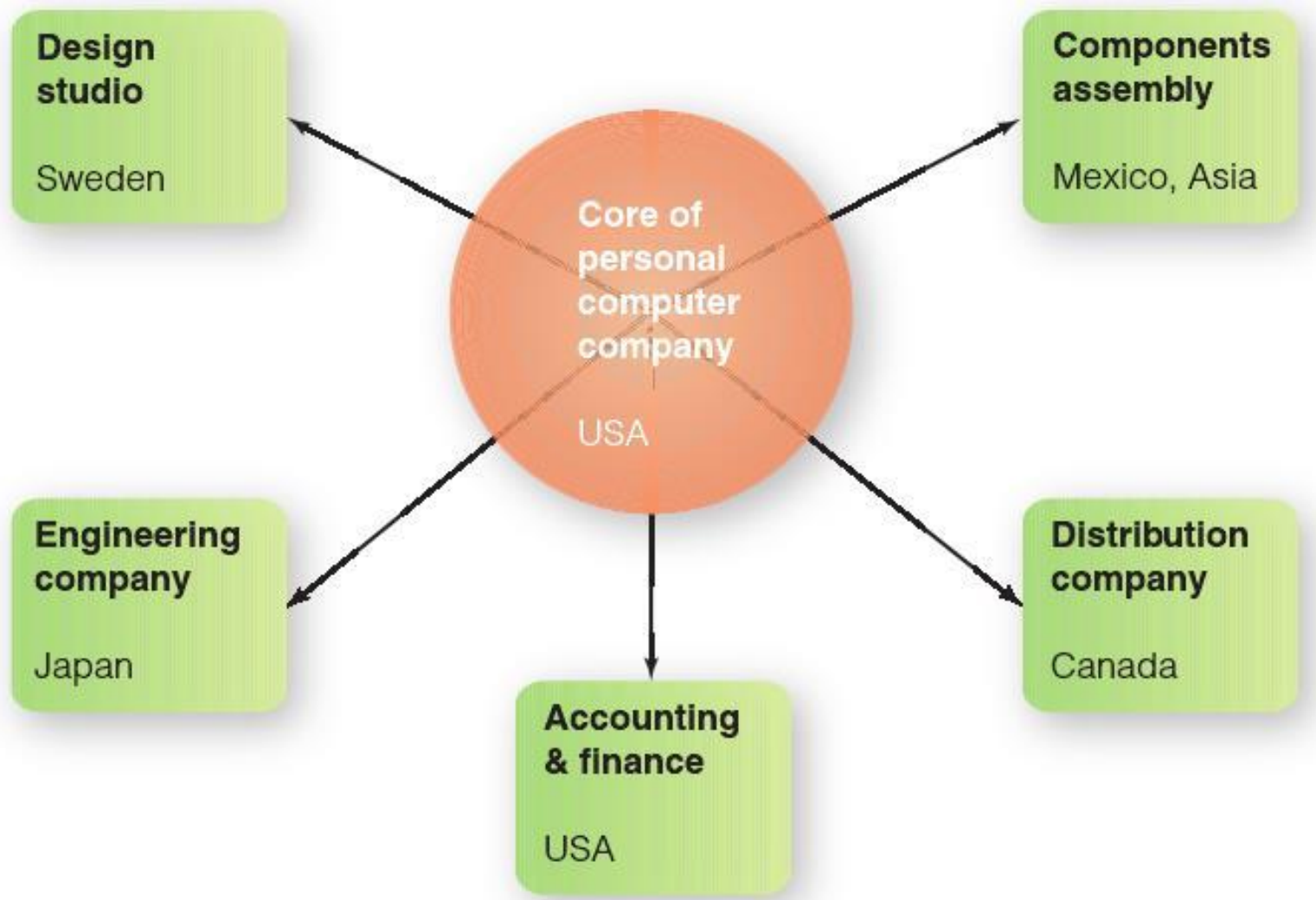
Project team members

Open Boundary Designs

- A boundary-less organization is a fluid, highly adaptive organization whose members, linked by information technology, come together to collaborate on common tasks.

- The collaborators may include not only coworkers but also suppliers, customers, and even competitors.

The Hollow/Network Structure: Operating with a Central Core & Outsourcing Functions to Outside Vendors

- A company with a hollow structure might retain important core processes as design or marketing and outsource most other processes, such as human resources, warehousing, or distribution, thereby seeming to "hollow out" the organization.

Design studio

Sweden

Components assembly

Mexico, Asia

Core of personal computer company

USA

Engineering company

Japan

Accounting & finance

USA

Distribution company

Canada

The Modular Structure: Outsourcing Pieces of a Product to Outside Firms

- Differs from the hollow structure in that it is outsourcing certain pieces of a product rather than outsourcing processes (such as human resources or warehousing) of an organization.

- A firm assembles product chunks, or modules, provided by outside contractors.

- For example, Bombardier, of Wichita, Kansas, makes eight-passenger business jets – the Continental, that is designed in large modules that are built in various places.
  - *The cockpit and forward fuselage are built by Bombardier Montreal.*
  - *The center section is built in Belfast,*
  - *the wing by Mitsubishi in Japan,*
  - *the stabilizers and rear fuselage by Aerospace Industrial Development in Taiwan,*
  - *the landing gear by Messier-Dowty in Canada,*
  - *the tailcone by Hawker de Havilland in Australia,*
  - *The engines are provided by General Electric and the avionics gear by Rockwell Collins, both companies in the United States.*
- The 12 modules are shipped to Wichita, where the parts are snapped together in just four days.

The Virtual Structure: An Internet-Connected Partner for a Temporary Project

- An organization whose members are geographically apart, usually working with e-mail, collaborative computing, and other computer connections.

- A company outside the company is created specifically to respond to an exceptional market opportunity that is often temporary.

  - e.g., Nokia, which had trouble gaining market share in the US, changed its strategy to develop phones in partnership with U.S. carriers, as by assigning product developers to AT&T and Verizon.

Practice

- Draw the organizational structures of TWO organizations.
- You should use two types of the following:
    (1) Traditional designs
    - The simple structure
    - The functional structure
    - The divisional structure
        - Product division
        - Customer division
        - Geographic division
    - Matrix structure

    (2) Horizontal designs
    (3) Open boundary designs
    - Hollow structure
    - Modular structure
    - Virtual structure

Mechanistic versus Organic Organizations

Mechanistic Organizations: When Rigidity & Uniformity Work Best

- In a mechanistic organization, authority is centralized, tasks and rules are clearly specified, and employees are closely supervised.

- Mechanistic organizations, then, are bureaucratic, with rigid rules and top-down communication.

- This kind of structure is effective in certain aspects of hotel work because the market demands uniform product quality and cleanliness.

Organic Organizations: When Looseness & Flexibility Work Best

- In an organic organization, authority is decentralized, there are fewer rules and procedures, and networks of employees are encouraged to cooperate and respond quickly to unexpected tasks.

- Organic organizations are sometimes termed "adhocracies" because they operate on an ad hoc basis.

MECHANISTIC ORGANIZATIONS	ORGANIC ORGANIZATIONS
Centralized hierarchy of authority	Decentralized hierarchy of authority
Many rules and procedures	Few rules and procedures
Specialized tasks	Shared tasks
Formalized communication	Informal communication
Few teams or task forces	Many teams or task forces
Narrow span of control, taller structures	Wider span of control, flatter structures

Differentiation versus Integration

Differentiation: When Forces Push the Organization Apart

- Differentiation is the tendency of the parts of an organization to disperse and fragment.

  – For example, a company producing dental floss, deodorants, and other personal-care products might have different product divisions, each with its own production facility and sales staff—a quite differentiated organization.

Integration: When Forces Pull the Organization Together

- Integration is the tendency of the parts of an organization to draw together to achieve a common purpose.

Review case - IDEO's Culture Reinforces Helping Behavior

Read the case and finish the following questions *individually*:

1. Using the competing values framework as a point of reference, how would you describe the current organizational culture at IDEO? Provide examples to support your conclusions.

2. What type of culture is desired by Tim Brown to meet his goals? Does the company have this type of culture? Discuss.

3. Which of the 12 ways to embed organizational culture has IDEO used to create its current culture? Provide examples to support your conclusions.

4. Does Tim Brown want to create more of a mechanistic or organic organization? Explain the rationale for his preference.

5. What is the most important lesson from this case? Discuss.