Decision Making Under Risk A more common decision-making condition is a state of risk. Under a *state of risk*, the availability of each alternative and its potential payoffs and costs are all associated with probability estimates. Suppose, for example, that a labor contract negotiator for a company receives a "final" offer from the union right before a strike deadline. The negotiator has two alternatives: to accept or to reject the offer. The risk centers on whether the union representatives are bluffing. If the company negotiator accepts the offer, she avoids a strike but commits to a relatively costly labor contract. If she rejects the contract, she may get a more favorable contract if the union is bluffing, but she may provoke a strike if it is not.

On the basis of past experiences, relevant information, the advice of others, and her own judgment, she may conclude that there is about a 75 percent chance that union representatives are bluffing and about a 25 percent chance that they will back up their threats. Thus she can base a calculated decision on the two alternatives (accept or reject the contract demands) and the proba-

state of risk
A condition in which the availab
each alternative and its potential
offs and costs are all associated
probability estimates

state of uncertainty
A condition in which the dec
maker does not know all the
tives, the risks associated w
or the consequences each a
is likely to have

organizing
Deciding how best to group organizational activities and resources

organization structure
The set of elements that can be used to configure an organization

any other. Another child, presented castle. He selects different blocks, for exampl ways. The children's activities—choosing certa putting them together in unique ways—are in ager's job of organizing.[3]

Organizing is deciding how best to group dren select different kinds of building bloc structural possibilities. And, just as the ch number of ways, so, too, can managers put ferent ways. Understanding the nature of ways in which they can be configured can petitiveness.[3] In this chapter, our focus organization structure. In Chapter 12 v together—organization design.

There are six basic building blocks t organization: designing jobs, grouping jobs, distributing authority ar

y influence the optimal span of
r also varies in different set-
e same span; some may sug-
l for a narrow span. Hence,
ctor or set of factors when
ique situation.

ion, how important is it to
and unambiguous chain
? Why?

ons is the determination
hority is power that has
ority is another normal
hen an owner-manager
reeds to give the new
livery dates, discounts,
ner-manager, he is no
e. The power given to
then, represents the
itive can make some
d the sales represen-
ssues that managers
ecentralization.[29]

authority
Power that has been legitimized by the organization

ren a superior and
as by which man-

delegation
The process by which a manager

basic …
gerial planning—deciding what to do. Org…
how to do it. We first elaborate on the meaning of organization structure …
sections explore the basic elements that managers use to create an organization.

The Elements of Organizing

Imagine asking a child to build a castle with a set of building blocks. She selects a few small blocks and other larger ones. She uses some square ones, some round ones, and some triangular ones. When she finishes, she has her own castle, unlike any other. Another child, presented with the same task, constructs a different castle. He selects different blocks, for example, and combines them in different ways. The children's activities—choosing certain combinations of blocks and then putting them together in unique ways—are in many ways analogous to the manager's job of organizing.[3]

Organizing is deciding how best to group organizational elements.[4] Just as children select different kinds of building blocks, managers can choose a variety of structural possibilities. And, just as the children can assemble the blocks in any number of ways, so, too, can managers put the organization together in many different ways. Understanding the nature of these building blocks and the different ways in which they can be configured can have a powerful impact on a firm's competitiveness.[5] In this chapter, our focus is on the building blocks themselves—*organization structure*. In Chapter 12 we focus on how the blocks can be put together—organization design.

There are six basic building blocks that managers can use in constructing an organization: designing jobs, grouping jobs, establishing reporting relationships between jobs, distributing authority among jobs, coordinating activities among jobs, and differentiating among positions. The logical starting point is the first building block—designing jobs for people within the organization.

centralization
The process of systematically retaining power and authority in the hands of higher-level managers

important to remember that decentralization is actually one end of a continuum anchored at the other end by *centralization*, the process of systematically retaining power and authority in the hands of higher-level managers. Hence, a decentralized organization is one in which decision-making power and authority are delegated as far down the chain of command as possible. Conversely, in a centralized organization, decision-making power and authority are retained at the higher levels of management. When H. Ross Perot ran EDS, he practiced centralization; his successors have used decentralization. No organization is ever completely decentralized or completely centralized; some firms position themselves toward one end of the continuum, and some lean the other way.[33]

What factors determine an organization's position on the decentralization-centralization continuum? One common determinant is the organization's external environment. Usually, the greater the complexity and uncertainty of the environment, the greater is the tendency to decentralize. Another crucial factor is the history of the organization. Firms have a tendency to do what they have done in the past, so there is likely to be some relationship between what an organization did in its early history and what it chooses to do today in terms of centralization or decentralization. The nature of the decisions being made is also

Core dimentions of jobs:

suggests that jobs should be diagnosed and improved along five core dimensions:

1. *Skill variety*, the number of things a person does in a job
2. *Task identity*, the extent to which the worker does a complete or identifiable portion of the total job
3. *Task significance*, the perceived importance of the task
4. *Autonomy*, the degree of control the worker has over how the work is performed
5. *Feedback*, the extent to which the worker knows how well the job is being performed

The higher a job rates on those dimensions, the more employees will experience various psychological states. Experiencing these states, in turn, presumably leads to high motivation, high-quality performance, high satisfaction, and low absenteeism and turnover. Finally, a concept called *growth-need strength* is presumed to affect how the model works for different people. People with a strong desire to grow, develop, and expand their capabilities (indicative of high growth-need strength) are expected to respond strongly to the presence or absence of the basic job characteristics; individuals with low growth-need strength are expected not to respond as strongly or consistently.

A large number of studies have been conducted to test the usefulness of the job characteristics approach. The Southwestern Division of Prudential Insurance, for example, used this approach in its claims division. Results included moderate declines in turnover and a small but measurable improvement in work quality. Other research findings have not supported this approach as strongly. Thus, although the job characteristics approach is one of the most promising alternatives to job specialization, it is probably not the final answer.

Work Teams Another alternative to job specialization is *work teams*. Under this arrangement, a group is given responsibility for designing the work system to be used in performing an interrelated set of tasks. In the typical assembly-line system, the work flows from one worker to the next, and each worker has a specified job to perform. In a work team, however, the group itself decides how jobs will be allocated. For example, the work team assigns specific tasks to members, monitors and controls its own performance, and has autonomy over work scheduling.[17] We discuss work teams more fully in Chapter 19.

| What are the basic job design alternatives? | Which kind of job design best describes a job you have recently |

Benefits and Limitations of Specialization

Job specialization provides four benefits to organizations.[9] First, workers performing small, simple tasks will become very proficient at each task. Second, transfer time between tasks decreases. If employees perform several different tasks, some time is lost as they stop doing the first task and start doing the next. Third, the more narrowly defined a job is, the easier it is to develop specialized equipment to assist with that job. Fourth, when an employee who performs a highly specialized job is absent or resigns, the manager is able to train someone new at relatively low cost. Although specialization is generally thought of in terms of operating jobs, many organizations have extended the basic elements of specialization to managerial and professional levels as well.[10] The job described in *The Business of Ethics* would be an example of just such a job.

On the other hand, job specialization can have negative consequences. The foremost criticism is that workers who perform highly specialized jobs may become bored and dissatisfied. The job may be so specialized that it offers no challenge or stimulation. Boredom and monotony set in, absenteeism rises, and the quality of

Designing Jobs

The first building block of organization structure is job design. *Job design* is the determination of an individual's work-related responsibilities.[6] For a machinist at Caterpillar, job design might specify what machines are to be operated, how they are to be operated, and what performance standards are expected. For a manager at Caterpillar, job design might involve defining areas of decision-making responsibility, identifying goals and expectations, and establishing appropriate indicators of success. The natural starting point for designing jobs is determining the level of desired specialization.

Job Specialization

Job specialization is the degree to which the overall task of the organization is broken down and divided into smaller component parts. Job specialization evolved from the concept of *division of labor*. Adam Smith, an eighteenth-century economist, described how a pin factory used division of labor to improve productivity.[7] One man drew the wire, another straightened it, a third cut it, a fourth ground the point, and so on. Smith claimed that ten men working in this fashion were able to produce 48,000 pins in a day, whereas each man working alone could produce only 20 pins per day.

More recently, the best example of the impact of specialization is the automobile assembly line pioneered by Henry Ford and his contemporaries. Mass-production capabilities stemming from job specialization techniques have had a profound impact throughout the world. High levels of low-cost production transformed U.S. society during the last century into one of the strongest economies in the history of the world.[8]

Job specialization is a normal extension of organizational growth. For example, when Walt Disney started his company, he did everything himself—wrote cartoons, drew them, and then marketed them to theaters. As the business grew, he eventually hired others to perform many of these same functions. As growth continued, so, too, did specialization. For example, as animation artists work on Disney movies today, they may specialize in generating computer images of a single character or doing only background scenery. And, today the Walt Disney Company has thousands of different specialized jobs. Clearly, no one person could perform them all. *The Business of*

specialization can be found in a wid instance, the various members of a raci specialists—someone is an expert on fu engine repairs, and someone specialize specialist for the Ryan Newman racing air pressure in a row of tires as he prepa Daytona International Speedway in D

manager, he is no
he power given to
en, represents the
e can make some
e sales represen-
es that managers
ntralization.[29]

a superior and
by which man-

able the man-
rden by doing
ordinate may

> **delegation**
> The process by which a manager
> assigns a portion of his or her total
> workload to others

b design is the
a machinist at
ated, how they
for a manager
aking respon-
iate indicators
ng the level of

job design
The determination of an individual's work-related responsibilities

tion is broken
evolved from
y economist,
ity.[7] One man
point, and so
oduce 48,000
ins per day.
e automobile
s-production

job specialization
The degree to which the overall task of the organization is broken down and divided into smaller component parts

e found in a wide variety of settings. Consider, for
embers of a racing crew. Each crew is comprised of
an expert on fuel mixtures, someone specializes in
Lawrence Burch is a tire

id, Bethlehem
d job rotation,
and flexibility.

over and over
developed to
rkers perform
issatisfaction.
etroit Edison,
assembly line
anged so that
sed the work
rkers, each of
enlargement
ne disadvan-
t pay should
ases the work

assumes that
f to improve
ase both the
er the job. To

job enlargement

An alternative to job specialization that involves giving the employee more tasks to perform

job enrichment

An alternative to job specialization that involves increasing both the number of tasks the worker does and the control the worker has over the job

Alternatives to Specialization

To counter the problems associated with specialization, managers have sought other approaches to job design that achieve a better balance between organizational demands for efficiency and productivity and individual needs for creativity and autonomy. Five alternative approaches are job rotation, job enlargement, job enrichment, the job characteristics approach, and work teams.[12]

Job Rotation *Job rotation* involves systematically moving employees from one job to another. A worker in a warehouse might unload trucks on Monday, carry incoming inventory to storage on Tuesday, verify invoices on Wednesday, pull outgoing inventory from storage on Thursday, and load trucks on Friday. Thus the jobs do not change, but instead, workers move from job to job. Unfortunately, for this very reason, job rotation has not been very successful in enhancing employee motivation or satisfaction. Jobs that are amenable to rotation tend to be relatively standard and routine. Workers who are rotated to a "new" job may be more satisfied at first, but satisfaction soon wanes. Although many companies (among them American Cyanamid, Bethlehem Steel, Ford, Prudential Insurance, TRW, and Western Electric) have tried job rotation, it is most often used today as a training device to improve worker skills and flexibility.

Job Enlargement On the assumption that doing the same basic task over and over is the primary cause of worker dissatisfaction, *job enlargement* was developed to increase the total number of tasks workers perform. As a result, all workers perform a wide variety of tasks, which presumably reduces the level of job dissatisfaction. Many organizations have used job enlargement, including IBM, Detroit Edison, AT&T, the U.S. Civil Service, and Maytag. At Maytag, for example, the assembly line for producing washing-machine water pumps was systematically changed so that work that had originally been performed by six workers, who passed the work sequentially from one person to another, was performed by four workers, each of whom assembled a complete pump.[13] Unfortunately, although job enlargement does have some positive consequences, they are often offset by some disadvantages: (1) training costs usually increase, (2) unions have argued that pay should increase because the worker is doing more tasks, and (3) in many cases the work remains boring and routine even after job enlargement.

Job Enrichment A more comprehensive approach, *job enrichment*, assumes that increasing the range and variety of tasks is not sufficient by itself to improve employee motivation.[14] Thus job enrichment attempts to increase both the number of tasks a worker does and the control the worker has over the job. To

nanagers have sought
ce between organiza-
al needs for creativity
job enlargement, job
s.[12]

ployees from one job
nday, carry incoming
pull outgoing inven-
e jobs do not change,
very reason, job rota-
ation or satisfaction.
and routine. Workers
ut satisfaction soon
anamid, Bethlehem
e tried job rotation,
skills and flexibility.

task over and over
was developed to
workers perform
ob dissatisfaction.
M, Detroit Edison,

job rotation
An alternative to job specialization that involves systematically moving employees from one job to another

job enlargement
An alternative to job specialization that involves giving the employee more tasks to perform

Distributing Authority

Another important building block in structuring organizations is the determination of how authority is to be distributed among positions. *Authority* is power that has been legitimized by the organization.[28] Distributing authority is another normal outgrowth of increasing organizational size. For example, when an owner-manager hires a sales representative to market his products, he needs to give the new employee appropriate authority to make decisions about delivery dates, discounts, and so forth. If every decision requires the approval of the owner-manager, he is no better off than he was before he hired the sales representative. The power given to the sales representative to make certain kinds of decisions, then, represents the establishment of a pattern of authority—the sales representative can make some decisions alone and others in consultation with coworkers, and the sales representative must defer some decisions to the boss. Two specific issues that managers must address when distributing authority are delegation and decentralization.[29]

The Delegation Process

Delegation is the establishment of a pattern of authority between a superior and one or more subordinates. Specifically, *delegation* is the process by which managers assign a portion of their total workload to others.[30]

Reasons for Delegation The primary reason for delegation is to enable the manager to get more work done. Subordinates help ease the manager's burden by doing major portions of the organization's work. In some instances, a subordinate ma

can make substantial contributions to the org... agers should recognize that a subordinate's satisfactory performance is not a threat to their own career, but an accomplishment by both the subordinate who did the job and the manager who trained the subordinate and was astute enough to entrust the subordinate with the project. Ultimate responsibility for the outcome, however, continues to reside with the manager.

Decentralization and Centralization

Just as authority can be delegated from one individual to another, organizations also develop patterns of authority across a wide variety of positions and departments. **Decentralization** is the process of systematically delegating power and authority throughout the organization to middle and lower-level managers. It is

decentralization
The process of systematically delegating power and authority throughout the organization to middle and lower-level managers
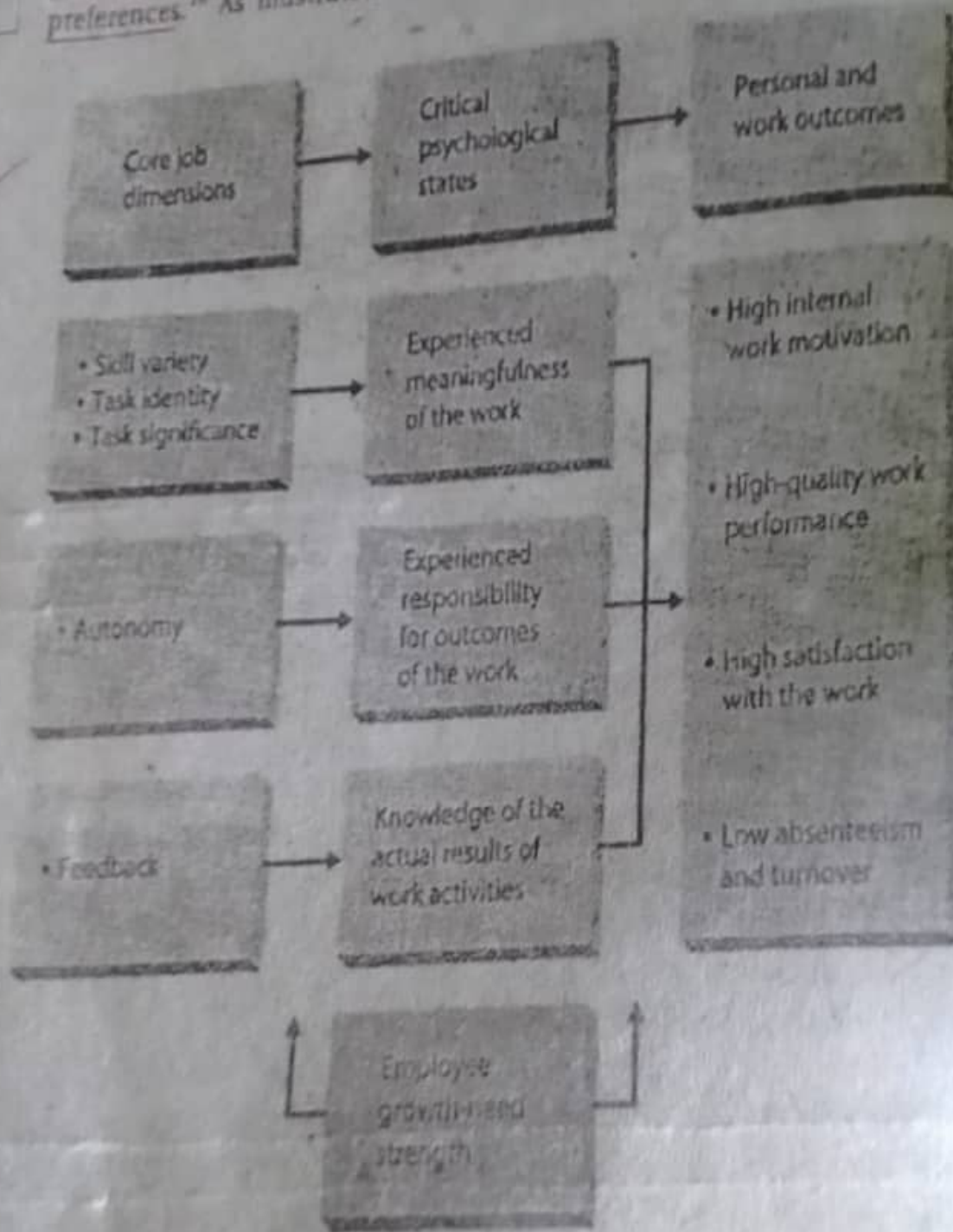
wanes. Although many companies ... Steel, Ford, Prudential Insurance, TRW, and Western Electric) have tried ju... it is most often used today as a training device to improve worker skills and flexibility.

Job Enlargement On the assumption that doing the same basic task over and over is the primary cause of worker dissatisfaction, *job enlargement* was developed to increase the total number of tasks workers perform. As a result, all workers perform a wide variety of tasks, which presumably reduces the level of job dissatisfaction. Many organizations have used job enlargement, including IBM, Detroit Edison, AT&T, the U.S. Civil Service, and Maytag. At Maytag, for example, the assembly line for producing washing-machine water pumps was systematically changed so that work that had originally been performed by six workers, who passed the work sequentially from one person to another, was performed by four workers, each of whom assembled a complete pump.[13] Unfortunately, although job enlargement does have some positive consequences, they are often offset by some disadvantages: (1) training costs usually increase, (2) unions have argued that pay should increase because the worker is doing more tasks, and (3) in many cases the work remains boring and routine even after job enlargement.

Job Enrichment A more comprehensive approach, *job enrichment*, assumes that increasing the range and variety of tasks is not sufficient by itself to improve employee motivation.[14] Thus job enrichment attempts to increase both the number of tasks a worker does and the control the worker has over the job. To

responsibility to clients and a typing team. Typists were matched with a task was changed from ten specific steps to three more general were upgraded. As a result, the frequency of order processing increased from 27 percent to 90 percent, the need for messenger service was eliminated, accuracy improved, and turnover became practically nil. [15] Other organizations that have tried job enrichment include Texas Instruments, IBM, and General Foods. This approach, however, also has disadvantages. For example, work systems need to be analyzed before enrichment, but this seldom happens, and managers rarely ask for employee preferences when enriching jobs.

Job Characteristics Approach The *job characteristics approach* is an alternative to job specialization that does take into account the work system and employee preferences. [16] As illustrated in Figure 11.1, the job characteristics approach

- Skill variety
- Task identity
- Task significance

Experienced meaningfulness of the work

- Autonomy

Experienced responsibility for outcomes of the work

- Feedback

Knowledge of the actual results of work activities

Core job dimensions

Critical psychological states

Personal and work outcomes

- High internal work motivation
- High-quality work performance
- High satisfaction with the work
- Low absenteeism and turnover

Employee growth-need strength

high motivation, high-quality performance, high satisfaction, and low absenteeism and turnover. Finally, a concept called growth-need strength is presumed to affect how the model works for different people. People with a strong desire to grow, develop, and expand their capabilities (indicative of high growth-need strength) are expected to respond strongly to the presence or absence of the basic job characteristics; individuals with low growth-need strength are expected not to respond as strongly or consistently.

A large number of studies have been conducted to test the usefulness of the job characteristics approach. The Southwestern Division of Prudential Insurance, for example, used this approach in its claims division. Results included moderate declines in turnover and a small but measurable improvement in work quality. Other research findings have not supported this approach as strongly. Thus, although the job characteristics approach is one of the most promising alternatives to job specialization, it is probably not the final answer.

Work Teams Another alternative to job specialization is *work teams*. Under this arrangement, a group is given responsibility for designing the work system to be used in performing an interrelated set of tasks. In the typical assembly-line system, the work flows from one worker to the next, and each worker has a specified job to perform. In a work team, however, the group itself decides how jobs will be allocated. For example, the work team assigns specific tasks to members, monitors and controls its own performance, and has autonomy over work scheduling. We discuss work teams more fully in Chapter 19.

What are the basic job design alternatives?

Which kind of job design best describes a job you have recently held? Do you agree or disagree with the text's assessment of that design?

Grouping Jobs: Departmentalization

The second building block of organization structure is the grouping of jobs according to some logical arrangement. The process of grouping jobs is called departmentalization. After establishing the basic rationale for departmentalization, we describe some common bases along which departments are created.[18]