3

Fundamentals of Organization Structure



Learning Objectives

After reading this chapter you should be able to:

- 1. Define the three key components of organization structure.
- Discuss the differences you see between the vertical and horizontal information-sharing aspects of structure.
- Describe how relational coordination differs from other horizontal coordination mechanisms.
- Identify the strengths and weaknesses of five common departmental grouping options, including functional, divisional, matrix, virtual, and holacracy.
- 5. Describe the symptoms of structural deficiency within an organization.

Chapter Outline

Organization Structure

Information-Sharing Perspective on Structure

Centralized Versus Decentralized · Vertical Information Sharing · Horizontal Information Sharing and Collaboration · Relational Coordination

Organization Design Alternatives

Required Work Activities • Reporting
Relationships • Departmental Grouping Options

Functional, Divisional, and Geographic Designs

Functional Structure • Functional Structure with Horizontal Linkages • Divisional Structure • Geographic Structure

Matrix Structure

Conditions for the Matrix • Strengths and Weaknesses

Virtual Network Structure and Outsourcing

How the Structure Works • Strengths and Weaknesses

Holacracy Team Structure

Characteristics · Strengths and Weaknesses

Applications of Structural Design

Mix and Match • Structural Alignment • Symptoms of Structural Deficiency

Before reading this chapter, please check whether you agree or disagree with **MANAGING** each of the following statements: **BY DESIGN OUESTIONS** A popular form of organizing is to have employees work on what they want in whatever department they choose so that motivation and enthusiasm stay high. I AGREE I DISAGREE Committees and task forces whose members are from different departments are often worthless for getting things done. I AGREE _ I DISAGREE ____ Top managers are smart to maintain organizational control over the activities of key work units rather than contracting out some work unit tasks to other firms. I AGREE **I DISAGREE**

Former Marine Captain Nate Fick compared the 13-person rifle squads of the United States Marine Corps to world-class dance troupes, saying, "Everybody's movement depends on everybody else's." Each squad was composed of a leader and three fire teams of four riflemen each. Writer Sam Walker, author of *The Captain Class: The Hidden Force That Creates the World's Greatest Teams*, called the Marine squads the "most brilliant tactical formation devised by any team in the last half century." Marine Corps Commandant Robert Neller doesn't necessarily disagree, but he blew up the long-standing structure of the squads by adding two new positions—an assistant squad leader and a systems operator focused on technology and intelligence—and reducing the squad size to 12. One rifleman was eliminated from each fire team. Today's military operations depend on battlefield intelligence pouring in from new technology, such as drones. So, in May of 2018, Neller "unveiled the most sweeping changes to Marine infantry combat organization in 70 years" to address new fighting conditions.¹

Like managers in all organizations, military leaders undertake structural changes from time to time to meet shifting needs. Organization structure is one vital factor that helps organizations execute their strategies and achieve their goals. As mentioned in Chapter 1 of this text, Procter & Gamble is cutting divisions and reducing levels of management to increase speed and agility in the global environment. The streaming service Spotify has added a new position to its management structure, hiring a chief content officer to help the company move beyond music. A new CEO at Ralph Lauren Corporation restructured operations so that design, merchandising, sourcing, and marketing teams work together to move products from design to the sales floor more quickly.² Many companies use structural innovations such as cross-functional teams and matrix designs to achieve the coordination and flexibility they need. Teams, for example, are part of the strategy used by the Federal Bureau of Investigation (FBI) to combat terrorism. Like other organizations, the FBI must find ways to accomplish more with limited resources. One innovation was the creation of Flying Squads, which are teams of volunteer agents and support staff from various offices who are ready to spring into action when minimally staffed FBI offices around the world request assistance.³ Some organizations, such as online retailer Zappos, have even moved to a bossless structure, in which all jobs, including those typically controlled and supervised by assigned managers, are handled by teams.

Because of the complexity of today's environment, many organizations are more complex and amorphous than they used to be. Wyeth Pharmaceuticals formed a joint venture with Accenture called the Alliance for Clinical Data Excellence, designed to "bring together the best of both Wyeth and Accenture" for managing Wyeth's entire clinical testing operation—from protocol design to patient recruitment to site monitoring. Accenture doesn't have a formal headquarters, no official branches, no permanent offices. The company's chief technologist is located in Germany, its head of human resources is in Chicago, the chief financial officer is in Silicon Valley, and most of its consultants are constantly on the move. Wyeth and Accenture reflect the structural trend among organizations toward outsourcing, alliances, and virtual networking.

Still other firms continue to be successful with traditional functional structures that are coordinated and controlled through the vertical hierarchy. Organizations use a wide variety of structural alternatives to help them achieve their purpose and goals, and nearly every firm needs to undergo reorganization at some point to help meet new challenges. Structural changes are needed to reflect new strategies or respond to changes in other contingency factors introduced in Chapters 1 and 2: environment, technology, size and life cycle, and culture.

Purpose of This Chapter

This chapter introduces basic concepts of organization structure and shows how to design structure as it appears on the organization chart. First, we define structure and provide an overview of structural design. Next, an information-sharing perspective explains how to design vertical and horizontal linkages to provide needed information flow and coordination. The chapter then presents basic design options, followed by strategies for grouping organizational activities into functional, divisional, matrix, virtual network, or holacracy team structures. The final section examines how the application of basic structures depends on the organization's situation (various contingencies) and outlines the symptoms of structural misalignment.

O BRIEFCASE

As an organization manager, keep these guidelines in mind:

Develop organization charts that describe task responsibilities, reporting relationships, and the grouping of individuals into departments. Provide sufficient documentation so that all people within the organization know to whom they report and how they fit into the total organization picture.

3.1 Organization Structure

The following three key components define **organization structure**:

- 1. Organization structure designates formal positions and reporting relationships, including the number of levels in the hierarchy and the span of control of managers and supervisors.
- 2. Organization structure identifies the grouping together of individuals into departments and of departments into the total organization.
- 3. Organization structure includes the design of systems to ensure effective communication, coordination, and integration of efforts across departments.⁶

These three elements of structure pertain to both vertical and horizontal aspects of organizing. For example, the first two elements are the structural *framework*, which is the vertical hierarchy.⁷ The third element pertains to the pattern of *interactions* among organizational employees. An ideal structure encourages employees to provide horizontal information and coordination where and when it is needed.

Organization structure is reflected in the organization chart. It isn't possible to see the internal structure of an organization the way we might see its manufacturing tools, offices, website, or products. Although we might see employees going about their duties, performing different tasks, and working in different locations, the only way to actually see the structure underlying all this activity is through the organization chart. The organization chart is the visual representation of a whole set of underlying activities and processes in an organization. Exhibit 3.1 shows a simple organization chart for a traditional organization. An organization chart can be quite useful in understanding how a company works. It shows the various parts of an organization, how they are interrelated, and how each position and department fits into the whole.

The concept of an organization chart, showing what positions exist, how they are grouped, and who reports to whom, has been around for centuries. For example, diagrams outlining church hierarchy can be found in medieval churches in Spain. However, the use of the organization chart for business stems largely from the Industrial Revolution. As we discussed in Chapter 1, as work grew more complex and was performed by greater numbers of workers, there was a pressing need to develop ways of managing and controlling organizations. The growth of the railroads provides an example. After the collision of two passenger trains in Massachusetts in 1841, the public demanded better control of the operation. As a result, the board of directors of the Western Railroad took steps to outline "definite responsibilities for each phase of the company's business, drawing solid lines of authority and command for the railroad's administration, maintenance, and operation."

Exhibit 3.2 shows an interesting example of an early organization chart created by Daniel McCallum for the Erie Railroad in 1855. Faced with financial strain and slumping productivity, McCallum created charts to explain the railroad's operations to investors and to show the division of responsibilities for superintendents along hundreds of miles of rail lines. McCallum divided the railroad into geographic divisions of manageable size, with each division headed by a superintendent.¹⁰

EXHIBIT 3.1A Sample Organization Chart

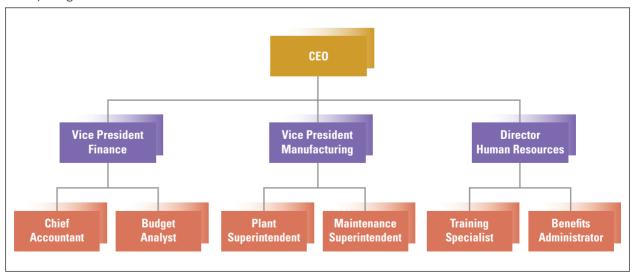
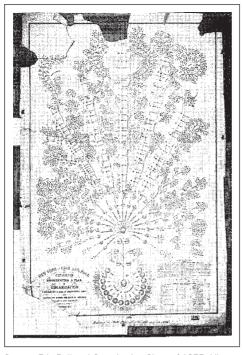


EXHIBIT 3.2

Organization Chart for the Erie Railroad, 1855



Source: Erie Railroad Organization Chart of 1855. Library of Congress, Haer, N.Y.

The type of organization structure that gradually grew out of these efforts in the late nineteenth and early twentieth centuries was one in which the CEO was placed at the top, and there was a clear hierarchy of authority extending to everyone else arranged in layers down below, as illustrated in Exhibit 3.1. The thinking and decision making are done by those at the top, and the physical work is performed by employees who are organized into distinct, functional departments. This structure was quite effective and became entrenched in business. nonprofit, and military organizations for most of the twentieth century. However, this type of vertical structure is not always effective, particularly in rapidly changing environments. Over the years, organizations have developed other structural designs, many of them aimed at increasing horizontal coordination and communication and

encouraging adaptation to external changes. This chapter's BookMark suggests that new approaches to organizing and managing people are crucial for companies to attain durable competitive advantages in the twenty-first century.



A popular form of organizing is to have employees work on what they want in whatever department they choose so that motivation and enthusiasm stay high.

ANSWER: Disagree. A small number of firms have tried this approach with some success, but a typical organization needs to structure its work activities, positions, and departments in a way that ensures work is accomplished and coordinated to meet organizational goals. Many managers try to give some consideration to employee choices as a way to keep enthusiasm high.

REMEMBER THIS

- Organization structure encompasses three key components. It designates formal
 positions and reporting relationships, identifies the grouping of individuals into
 departments, and provides mechanisms for linking and coordinating organizational
 elements into a coherent whole.
- The structure is reflected on the organization chart.
- The concept of an organization chart has been around for centuries, but the use of these charts for business stems largely from the Industrial Revolution.

3.2 Information-Sharing Perspective on Structure

The organization should be designed to provide both vertical and horizontal information flow as necessary to accomplish the organization's overall goals. If the structure doesn't fit the information requirements of the organization, people either will have too little information or will spend time processing information that is not vital to their tasks, thus reducing effectiveness. However, there is an inherent tension between vertical and horizontal mechanisms in an organization. Whereas vertical linkages are designed primarily for control, horizontal linkages are designed for coordination and collaboration, which usually means reducing control.

3.2a Centralized Versus Decentralized

One question is the level at which decisions are made in the organization, because that determines where information is needed. Centralization and decentralization pertain to the hierarchical level at which decisions are made. **Centralization** means that decision authority is located near the top of the organization. With **decentralization**, decision authority is pushed downward to lower organization levels.

Organizations can choose whether to orient toward a traditional organization designed for efficiency, which emphasizes vertical communication and control (a mechanistic design, as described in Chapter 1), or toward a more flexible learning organization, which emphasizes horizontal communication and coordination (an organic design). Exhibit 3.3 compares organizations designed for efficiency with those designed for learning and adaptation. An emphasis on efficiency and control is associated with specialized tasks, a hierarchy of authority, rules and regulations, formal reporting systems, few teams or task forces, and centralized decision making. Emphasis on learning and adaptation is associated with shared tasks; a relaxed hierarchy; few rules; face-to-face communication; many teams and task forces; and decentralized decision making.

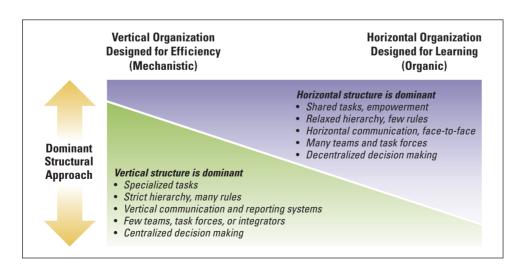


EXHIBIT 3.3

The Relationship of Organization Design to Efficiency Versus Learning Outcomes

BOOKMARK



HAVE YOU READ THIS BOOK?

The Future of Management

By Gary Hamel with Bill Breen

Management breakthroughs such as the principles of scientific management, divisionalized organization structure, and using brand managers for horizontal coordination have created more sustained competitive advantage than any hot new product or service innovation, says Gary Hamel in The Future of Management, written with Bill Breen. Wait a minute—haven't those ideas been around since well, forever? Exactly the point, says Hamel. In fact, he points out that many of today's managers are running twenty-first-century organizations using ideas, practices, and structural mechanisms invented a century or more ago. At that time, the principles of vertical hierarchy, specialization, bureaucratic control, and strong centralization were radical new approaches developed to solve the problem of inefficiency. They are too static, regimented, and binding today when the pace of change continues to accelerate. Today's organizations, Hamel argues, have to become "as strategically adaptable as they are operationally efficient."

SOME STRUCTURAL INNOVATORS

Hamel suggests that the practice of management must undergo a transformation akin to that which occurred with the Industrial Revolution and the advent of scientific management. Here, from *The Future of Management*, are a few examples that offer glimpses of what is possible when managers build structure around principles of community, creativity, and information sharing rather than strict hierarchy:

 Whole Foods Market. Teams are the basic organizational unit at Whole Foods, and they have a degree of autonomy nearly unprecedented in the retail industry. Each store is made up of eight or so self-directed teams that oversee departments such as fresh produce, prepared foods, dairy, or checkout. Teams are responsible for all key

- operating decisions, including pricing, ordering, hiring, and in-store promotions.
- W. L. Gore. W. L. Gore's innovation was to organize work so that good things happen whether managers are "in control" or not. Gore, best known for Gore-Tex fabric, lets employees decide what they want to do. There are no management layers, few titles, and no organization charts. As at Whole Foods, the core operating units are small teams, but at Gore people can choose which teams to work on and say no to requests from anyone. Gore also builds in strong accountability—people are reviewed by at least 20 of their peers every year.
- Visa. Everybody's heard of Visa, but few people know anything about the organization behind the brand. Visa is the world's first almost-entirely virtual company. In the early 1970s, a group of banks formed a consortium that today has grown into a global network of 21,000 financial institutions and more than 1.3 billion cardholders. The organization is largely self-organizing, continually evolving as conditions change.

HOW TO BE A MANAGEMENT INNOVATOR

Most companies have a system for product innovation, but Hamel notes that few have a well-honed process for management innovation. *The Future of Management* provides detailed steps managers can take to increase the chances of a breakthrough in management thinking. Hamel considers the rise of modern management and organization design the most important innovation of the twentieth century. It is time now, though, for twenty-first-century ideas.

The Future of Management, by Gary Hamel with Bill Breen, is published by Harvard Business School Press.

Organizations may have to experiment to find the correct degree of centralization or decentralization to meet their needs. For example, a study by William Ouchi found that three large school districts that shifted to a more flexible, decentralized structure, giving school principals more autonomy, responsibility, and control over resources, performed better and more efficiently than large districts that were highly centralized. Walmart is experimenting with greater decentralization in some stores by having fewer managers and giving more decision-making authority to people on the sales floor. The company is testing several versions of the concept, called "Great Workplace," in around 100 Walmart Neighborhood Markets and smaller supercenters. People Japanese companies such as Toyota, which have a strong tradition of centralization, are seeing the power of decentralization for promoting a sense of ownership, as described in the following In Practice example.

"We didn't have to go back to Japan for approval on everything," said Randy Stephens, the chief engineer at the Toyota Technical Center near Ann Arbor, Michigan, where a new version of the Avalon was designed and engineered. "We might go back to review the status of the project, but there is a feeling of ownership of this car here."

The new version of the Avalon, designed and engineered in Michigan and built in Kentucky, was promoted as the company's most American vehicle ever. It was the first prototype not developed in Japan, and it was a test of how well Toyota can decentralize decision making to the company's subsidiaries. Following years of crisis related to safety issues and recalls, Toyota managers have been gradually rebuilding a stronger company, which includes delegating responsibilities more globally.

The company was strongly criticized for its need to coordinate every decision regarding the safety issues and recalls from headquarters. Executives have since overhauled the quality control process and decentralized more decision making to regional managers in charge of safety in North America, Europe, and Asia.¹⁴

Although many decisions will still rest with executives at headquarters, Toyota has realized that some decisions need to be made close to the action. Regional managers believe the problems Toyota went through have given top executives freedom to take risks they might not have taken otherwise. ¹⁵

However, not every organization should decentralize all decisions. Wells Fargo executives say too much decentralization is partly to blame for the ethical and legal trouble the company got into when employees were opening fake bank accounts, as described in the previous chapter. Within many companies, there is often a "tug of war between centralization and decentralization" as top executives want to centralize some operations to eliminate duplication and provide greater oversight, while business managers want to maintain decentralized control. Managers are always searching for the best combination of vertical control and horizontal collaboration, centralization and decentralization, for their own situations. To

3.2b Vertical Information Sharing

Organization design should facilitate the communication among employees and departments that is necessary to accomplish the organization's overall task. Managers create *information linkages* to facilitate communication and coordination among organizational elements. **Vertical linkages** are used to coordinate activities between the top and bottom of an organization and are designed primarily for control of the organization. Employees at lower levels should carry out activities consistent with top-level goals, and top executives must be informed of activities and accomplishments at the lower levels. Organizations may use any of a variety of structural devices to achieve vertical linkage, including hierarchical referral, rules and plans, and formal management information systems.¹⁸

Hierarchical Referral. The first vertical device is the hierarchy, or chain of command, which is illustrated by the vertical lines in Exhibit 3.1. If a problem arises that employees don't know how to solve, it can be referred up to the next level in the hierarchy. When the problem is solved, the answer is passed back down to lower levels. The lines of the organization chart act as communication channels.



Rules and Plans. The next linkage device is the use of rules and plans. To the extent that problems and decisions are repetitious, a rule or procedure can be established so employees know how to respond without communicating directly with their manager. Rules and procedures provide a standard information source enabling employees to be coordinated without actually communicating about every task. At PepsiCo's Gemesa cookie business in Mexico, for example, managers carefully brief production workers on goals, processes, and procedures so that employees themselves do most of the work of keeping the production process running smoothly, enabling the plants to operate with fewer managers. Plans also provide standing information for employees. The most widely used plan is the budget. With carefully designed and communicated budget plans, employees at lower levels can be left on their own to perform activities within their resource allotment.

Vertical Information Systems. A **vertical information system** is another strategy for increasing vertical information capacity. Vertical information systems include the periodic reports, written information, and e-mails and other computer-based communications distributed to managers. Information systems make communication up and down the hierarchy more efficient.

In today's world of corporate financial scandals and ethical concerns, many top managers are considering strengthening their organization's linkages for vertical information and control. The other major issue in organizing is to provide adequate horizontal linkages for coordination and collaboration.

3.2c Horizontal Information Sharing and Collaboration

Horizontal communication overcomes barriers between departments and provides opportunities for coordination and collaboration among employees to achieve unity of effort and organizational objectives. ²⁰ Collaboration means a joint effort between people from two or more departments to produce outcomes that meet a common goal or shared purpose and that are typically greater than what any of the individuals or departments could achieve working alone.²¹ To understand the value of collaboration, consider the 2011 U.S. mission to raid Osama bin Laden's compound in Pakistan. The raid could not have succeeded without close collaboration between the Central Intelligence Agency (CIA) and the U.S. military. There has traditionally been little interaction between the nation's intelligence officers and its military officers, but the war on terrorism has changed that mindset. During planning for the bin Laden mission, military officers spent every day for months working closely with the CIA team in a remote, secure facility on the CIA campus. "This is the kind of thing that, in the past, people who watched movies thought was possible, but no one in the government thought was possible," one official later said of the collaborative mission.²²

Horizontal linkage refers to communication and coordination horizontally across organizational departments. Its importance is articulated by comments made by Lee Iacocca when he took over Chrysler Corporation in the 1980s. The following quote might be more than three decades old, but it succinctly captures a problem that still occurs in organizations all over the world:

What I found at Chrysler were thirty-five vice presidents, each with his own turf. ... I couldn't believe, for example, that the guy running engineering departments wasn't in constant touch with his counterpart in manufacturing. But that's how it was. Everybody worked independently. I took one look at that system and I



As an organization manager, keep these guidelines in mind:

Provide vertical and horizontal information linkages to integrate diverse departments into a coherent whole. Achieve vertical linkage through hierarchy referral, rules and plans, and vertical information systems. Achieve horizontal linkage through cross-functional information systems, liaison roles, task forces, fulltime integrators, and teams.

almost threw up. That's when I knew I was in really deep trouble. ... Nobody at Chrysler seemed to understand that interaction among the different functions in a company is absolutely critical. People in engineering and manufacturing almost have to be sleeping together. These guys weren't even flirting!²³

During his tenure at Chrysler, Iacocca pushed horizontal coordination to a high level. All the people working on a specific vehicle project—designers, engineers, and manufacturers, as well as representatives from marketing, finance, purchasing, and even outside suppliers—worked together on a single floor so they could easily communicate. Horizontal linkage mechanisms often are not drawn on the organization chart, but nevertheless are a vital part of organization structure. Small organizations usually have a high level of interaction among all employees, but in a large organization such as Chrysler, Google, Toyota, or Infosys, providing mechanisms to ensure horizontal information sharing is critical to effective collaboration, knowledge sharing, and decision making. For example, poor coordination and lack of information sharing has been blamed for delaying Toyota's decisions and response time to quality and safety issues related to sticky gas petals, faulty brakes, and other problems. The following devices are structural alternatives that can improve horizontal coordination and information flow. Each device enables people to exchange information.

Information Systems. A significant method of providing horizontal linkage in today's organizations is the use of cross-functional information systems. Computerized information systems enable managers or frontline workers throughout the organization to routinely exchange information and update each other about progress, problems, opportunities, activities, or decisions. For example, at Veterans Administration (VA) hospitals around the country, a sophisticated system called Vista enables people all across the organization to access complete patient information and provide better care. By enabling close coordination and collaboration, technology helped transform the VA into one of the most cost-effective medical providers in the United States.²⁷

Some organizations also encourage employees to use the company's information systems to build relationships across the organization, aiming to support and enhance ongoing coordination across projects and geographical boundaries. CARE International, one of the world's largest private international relief organizations, enhanced its personnel database to make it easy for people to find others with congruent interests, concerns, or needs. Each person in the database has listed past and current responsibilities, experience, language abilities, knowledge of foreign countries, emergency experiences, skills and competencies, and outside interests. The database makes it easy for people working across borders to seek each other out, share ideas and information, and build enduring horizontal connections.²⁸

Liaison Roles. A higher level of horizontal linkage is direct contact between managers or employees affected by a problem. One way to promote direct contact is to create a special **liaison role.** A liaison person, sometimes called a coordinator, is located in one department but has the responsibility for communicating and achieving coordination and collaboration with another department. Liaison roles often exist between engineering and manufacturing departments because engineering has to develop and test products to fit the limitations of manufacturing facilities. An engineer's office might be located in the manufacturing area so the engineer is readily available for discussions with manufacturing supervisors about engineering

problems with the manufactured products. A research and development person might sit in on sales meetings to coordinate new product development with what salespeople think customers are wanting.

Task Forces. Liaison roles usually link only two departments. When linkage involves several departments, a more complex device such as a task force is required. A **task force** is a temporary committee composed of representatives from each organizational unit affected by a problem.²⁹ Each member represents the interest of a department or division and can carry information from the meeting back to that department.

Task forces are an effective horizontal linkage device for temporary issues. They solve problems by direct horizontal collaboration and reduce the information load on the vertical hierarchy. Typically, they are disbanded after their tasks are accomplished. Organizations have used task forces for everything from organizing the annual company picnic to solving expensive and complex manufacturing problems. One example comes from Georgetown Preparatory School in North Bethesda, Maryland, which used a task force made up of teachers, administrators, coaches, support staff, and outside consultants to develop a flu preparedness plan. ³⁰ After it acquired Time Warner, AT&T created numerous task forces to work on issues ranging from programming to data analytics.



Things have been changing fast since AT&T bought Time Warner and rebranded it as WarnerMedia. At the time of the acquisition, Time Warner had three major divisions: HBO, Turner, and Warner Brothers. Soon after the acquisition deal was closed in 2018, AT&T executives created several committees, called "workstreams," made up of people from each of the three units, to analyze the rapid changes in the media industry and brainstorm ideas for how to address them.



One workstream focused on the future of television and came up with the initial plan for a subscription video service to compete with Netflix. The idea was to keep HBO's standalone streaming service, HBO NOW, as a separate product, but introduce a new service with HBO at the center and additional content pulled from the rest of Warner Media's film and television libraries. The workstreams were the beginning of AT&T's efforts to break down boundaries and get the divisions working together. "I couldn't remember many times over the years where you'd have all three companies deciding strategy together," said a longtime Time Warner employee. John Stankey, WarnerMedia's CEO, and Robert Greenblatt, the former NBC Entertainment Chairman that Stankey put in charge of programming as Chief Content Officer, want the company to be more like successful firms such as Walt Disney Company and Comcast's NBC Universal, where there is much more cooperation and collaboration across divisions. Greenblatt warned employees that competitors were "eating our lunch," and pointed to the infighting and turf battles that had long characterized the relationships among Time Warner's divisions as one major reason for it. For instance, insiders say Turner once tried to collaborate with HBO on a streaming service but rivalries squashed the efforts. "This company in the past has tended to be a collection of separate entities " said Greenblatt. "It is really incumbent on us to figure out how to manage them in a really smart way together."31

2 Committees and task forces whose members are from different departments are often worthless for getting things done.

ANSWER: Disagree. The point of cross-functional committees and task forces is to share information to coordinate their departmental activities. Meeting, talking, and disagreeing are the work of the committee. These groups should not try to "get things done" in the sense of being efficient.



Full-time Integrator. A stronger horizontal linkage device is to create a full-time position or department solely for the purpose of coordination. A full-time **integrator** frequently has a title, such as product manager, project manager, program manager, or brand manager. Unlike the liaison person described earlier, the integrator does not report to one of the functional departments being coordinated. He or she is located outside the departments and has the responsibility for coordinating several departments. The brand manager for Planters Peanuts, for example, coordinates the sales, distribution, and advertising for that product.

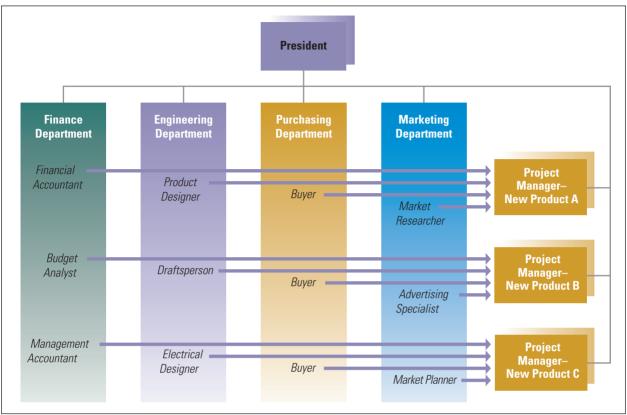
The integrator can also be responsible for an innovation or change project, such as coordinating the design, financing, and marketing of a new product. An organization chart that illustrates the location of project managers for new product development is shown in Exhibit 3.4. The project managers are drawn to the side to indicate their separation from other departments. The arrows indicate project members assigned to the new product development. New Product A, for example, has a financial accountant assigned to keep track of costs and budgets. The engineering member provides design advice, and purchasing and manufacturing members represent their areas. The project manager is responsible for the entire project. He or she sees that the new product is completed on time, is introduced to the market, and achieves other project goals. The horizontal lines in Exhibit 3.4 indicate that project managers do not have formal authority over team members with respect to giving pay raises, hiring, or firing. Formal authority rests with the managers of the functional departments, who have direct authority over subordinates within their departments.

Integrators need excellent people skills. Integrators in most companies have a lot of responsibility but little authority. The integrator has to use expertise and persuasion to achieve coordination. He or she spans the boundary between departments and must be able to get people together, maintain their trust, confront problems, and resolve conflicts and disputes in the interest of the organization.³²

Cross-Functional Teams. Project teams tend to be the strongest horizontal linkage mechanism. **Cross-functional teams** are permanent task forces made up of members from different functional areas and are often used in conjunction with a full-time integrator. When activities among departments require strong coordination and collaboration over a long period of time, a cross-functional team is often the solution. These teams are often formed as a foundation for an innovation by bringing together people from research, engineering, marketing, supply chain, and finance—each department that an innovation would affect. In companies that have implemented cross-functional teams successfully, including Apple, IKEA, and LEGO, managers clearly detail a specific and limited set of innovation goals so the team knows what it must do to be successful.³³ Special project teams may be used when organizations have a large-scale project, a major innovation, or a new product line. JetBlue Airways

EXHIBIT 3.4

Project Manager Location in the Structure



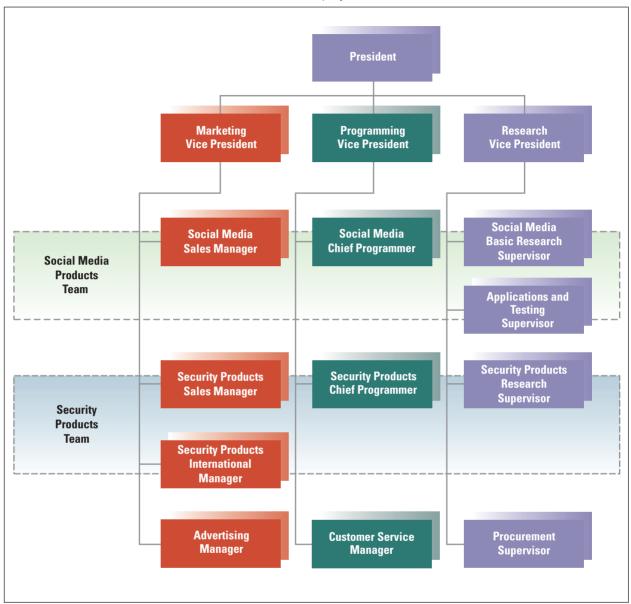
put together a special project team made up of crew schedulers, systems operators, dispatchers, reservations agents, and other employees to revise how the airline handles and recovers from "irregular operations," such as severe weather. How effectively airlines manage and recover from these events dramatically affects performance and customer satisfaction, but effectiveness requires close coordination. The goal of JetBlue's special project team is to work out solutions to help the airline improve both regular on-time performance and its recovery time from major events.³⁴

Many of today's companies use virtual cross-functional teams. A **virtual team** is one that is made up of organizationally or geographically dispersed members who are linked primarily through advanced information and communications technologies. Members use the Internet, collaboration software, and other digital technologies to work together rather than meet face to face. Most companies, especially those that have virtual team members working in several different countries across time zones and cultures, have a virtual work space that members can access 24 hours a day. Most companies and cultures and cultures across time zones and cultures.

An illustration of how teams provide strong horizontal coordination is shown in Exhibit 3.5. Wizard Software Company develops and markets software for various web, desktop, and mobile applications, from games and social media products to financial services. Wizard uses teams to coordinate each product line across the research, programming, and marketing departments, as illustrated by the dashed lines and shaded areas in the exhibit. Members from each team meet at the beginning of each day as needed to resolve problems concerning customer needs, backlogs, programming changes, scheduling conflicts, and any other problem with the product line. Are you cut

EXHIBIT 3.5

Teams Used for Horizontal Coordination at Wizard Software Company



out for horizontal teamwork? Complete the questionnaire in the "How Do You Fit the Design?" box to assess your feelings about working on a team.

Exhibit 3.6 summarizes the mechanisms for achieving horizontal linkages. These devices represent alternatives that managers can select to increase horizontal coordination and collaboration in any organization. The higher-level devices provide more horizontal information capacity, although the cost to the organization in terms of time and human resources is greater. If horizontal communication is insufficient, departments will find themselves out of synchronization and will not contribute to the overall goals of the organization. When the amount of horizontal coordination needed is high, managers should select higher-level mechanisms.

HOW DO YOU FIT THE DESIGN?



THE PLEASURE/PAIN OF WORKING ON A TEAM

Your approach to your job or schoolwork may indicate whether you thrive on a team. Answer the following questions about your work preferences. Please answer whether each item is Mostly True or Mostly False for you.

		Mostly True	Mostly False
1.	I prefer to work on a team rather than do individual tasks.		
2.	Given a choice, I try to work by myself rather than face the hassles of group work.		
3.	I enjoy the personal interaction when working with others.		
4.	I prefer to do my own work and let others do theirs.		
5.	I get more satisfaction from a group victory than an individual victory.		
6.	Teamwork is not worthwhile when people do not do their share.		
7.	I feel good when I work with others, even when we disagree.		
8.	I prefer to rely on myself rather than others to do a job or assignment.		

Scoring: Give yourself one point for each odd-numbered item you marked as Mostly True and one point for each even-numbered item you marked Mostly False. Your score indicates your preference for teamwork versus individual work. If you scored 2 or fewer points, you definitely prefer individual work. A score of 7 or above suggests that you prefer working in teams. A score of 3–6 indicates comfort working alone and in a team.

Interpretation: Teamwork can be either frustrating or motivating depending on your preference. On a team you will lose some autonomy and have to rely on others who may be less committed than you. On a team you have to work through other people and you lose some control over work procedures and outcomes. On the other hand, teams can accomplish tasks far beyond what an individual can do, and working with others can be a major source of satisfaction. If you definitely prefer individual work, then you would likely fit better in a functional structure within a vertical hierarchy or in the role of individual contributor. If you prefer teamwork, then you are suited to work in the role of a horizontal linkage, such as on a task force or as an integrator, and would do well in a holacracy team or matrix organization structure.

Source: Based on Jason D. Shaw, Michelle K. Duffy, and Eric M. Stark, "Interdependence and Preference for Group Work: Main and Congruence Effects on the Satisfaction and Performance of Group Members," *Journal of Management* 26, no. 2 (2000), 259–279.

3.2d Relational Coordination

The highest level of horizontal coordination illustrated in Exhibit 3.6 is relational coordination. **Relational coordination** refers to "frequent, timely, problem-solving communication carried out through relationships of shared goals, shared knowledge, and mutual respect." Relational coordination isn't a device or mechanism like the other elements listed in Exhibit 3.6, but rather is part of the very fabric and culture of the organization. In an organization with a high level of relational coordination, people share information freely across departmental boundaries, and people interact on a continuous basis to share knowledge and solve problems. Coordination is carried out through a web of ongoing positive relationships rather than because of formal coordination roles or mechanisms. Employees coordinate and collaborate directly with each other across units.

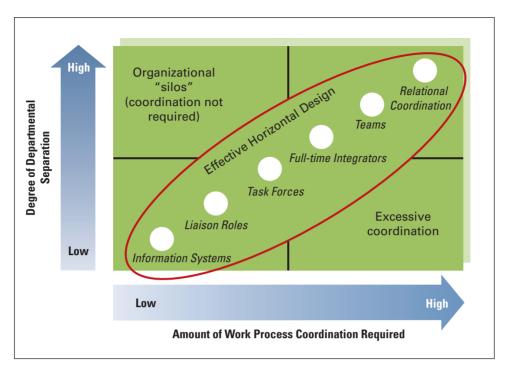


EXHIBIT 3.6
Ladder of Mechanisms
for Horizontal Linkage
and Coordination

Sources: Based on Exhibit 1 in Nicolay Worren, "Hitting the Sweet Spot Between Separation and Integration in Organization Design," *People & Strategy* 34, no. 1 (2011), 24–30; and Richard L. Daft, *Organization Theory and Design*, 11th ed. (Cincinnati, OH: Cengage/Southwestern), 106.

Building relational coordination into the fabric of the organization requires the active role of managers. Managers invest in training people in the skills needed to interact with one another and resolve cross-functional conflicts, build trust and credibility by showing they care about employees, and intentionally foster relationships based on shared goals rather than emphasizing goals of the separate departments. People are given freedom from strict work rules so they have the flexibility to interact and contribute wherever they are needed, and rewards are based on team efforts and accomplishments. Frontline supervisors have small spans of control so they can develop close working relationships with subordinates and coach and mentor employees. Managers also create specific cross-functional roles that promote coordination across boundaries. Southwest Airlines provides a good illustration.

Airlines face many challenges, but one that they face hundreds of times a day is getting airplanes loaded and off the ground safely and on time. Flight departure is a highly complex process. It involves numerous employees from various departments—such as ticket agents, pilots, flight attendants, baggage handlers, gate agents, mechanics, ramp agents, and fuel attendants—performing multiple tasks within a limited time period, under uncertain and ever-changing conditions. If all these groups aren't tightly coordinated, a successful on-time departure is difficult to achieve.

Southwest Airlines has the shortest turnaround time in the business, partly because managers promote relational coordination to achieve superior on-time performance and a high level of customer satisfaction. In any airline, there can be serious disagreements among employees about who is to blame when a flight is delayed, so Southwest managers created what they call *team delay*. Rather than searching for who is to blame when something goes wrong, the team delay is used to point out problems in coordination between

Southwest Airlines

(continued)

various groups. Emphasis on the team focuses everyone on the shared goals of on-time departure, safety, accurate baggage handling, and customer satisfaction. Because delay becomes a team problem, people are motivated to work closely together and coordinate their activities rather than looking out for themselves and trying to avoid or shift blame. Supervisors work closely with employees, but their role is less about "being the boss," and more about enabling learning and helping people do their jobs. Southwest uses a small supervisory span of control—about one supervisor for every eight or nine frontline employees—so that supervisors have the time to coach and assist employees, who are viewed as internal customers.³⁹

By using practices that facilitate relational coordination, Southwest managers ensure that all the departments involved in flight departure are tightly coordinated. When relational coordination is high, people share information and coordinate their activities without having to have bosses or formal mechanisms telling them to do so.

When he was deputy commander of U.S. forces in Afghanistan, four-star Army General David M. Rodriguez (currently commander of the United States Africa Command) was known to foster relational coordination among U.S. and Afghan military leaders as well as low-ranking commanders, civilian leaders, and others. His operations center had the feel of a newsroom, in which people eagerly talked to one another and shared their knowledge. Guidelines from high-ranking officers got bottom-up refinement from captains and sergeants. Rodriguez understood that people have to "work together and figure out how to maximize the effectiveness of the team." 40

REMEMBER THIS

- Linking the organization into a coherent whole requires the use of information systems and communication linkage devices in addition to the organization chart.
- Organization structure can be designed to provide vertical and horizontal information linkages based on the information processing required to meet the organization's overall goal.
- Managers can choose whether to orient toward a traditional organization designed for efficiency, which emphasizes vertical linkages such as hierarchy, rules and plans, and formal information systems (a mechanistic design), or toward a more flexible organization designed for learning and adaptation, which emphasizes horizontal communication and coordination (an organic design).
- Organizations provide horizontal linkages through cross-functional information systems, liaison roles, temporary task forces, full-time integrators, cross-functional teams, and by creating the conditions to enable relational coordination.

BRIEFCASE

As an organization manager, keep these guidelines in mind:

Recognize that the strongest horizontal linkage mechanisms are more costly in terms of time and human resources but are necessary when the organization needs a high degree of horizontal coordination to achieve its goals. When very high levels of coordination and knowledge sharing are needed, build relational coordination into the culture of the organization.

3.3 Organization Design Alternatives

The overall design of organization structure indicates three things: required work activities, reporting relationships, and departmental groupings.

3.3a Required Work Activities

Departments are created to perform tasks considered strategically important to the company. In a typical manufacturing company, for example, work activities fall into a range of functions that help the organization accomplish its goals, such as a human resource department to recruit and train employees, a purchasing department to obtain supplies and raw materials, a production department to build products, and a sales department to sell products. As organizations grow larger and more complex, managers find that more functions need to be performed. Organizations typically define new positions, departments, or divisions as a way to accomplish new tasks deemed valuable by the organization. Recall that Spotify has added a chief content officer to move beyond streaming music. British oil giant BP added a new safety division in the wake of the Deepwater Horizon oil spill. Amazon created an in-house logistics department to handle its own shipping and distribution. Some observers think Amazon's delivery network will eventually become a business that will challenge UPS and FedEx in delivering merchandise and packages for other companies.⁴¹

3.3b Reporting Relationships

Once required work activities and departments are defined, the next question is how these activities and departments should fit together in the organizational hierarchy. Reporting relationships, often called the *chain of command*, are represented by vertical lines on an organization chart. The chain of command should be an unbroken line of authority that links all persons in an organization and shows who reports to whom. In a large organization such as General Electric, BP, Amazon, or L'Oreal, 100 or more charts might be needed to identify reporting relationships among thousands of employees. The definition of departments and the drawing of reporting relationships define how employees are to be grouped into departments.

3.3c Departmental Grouping Options

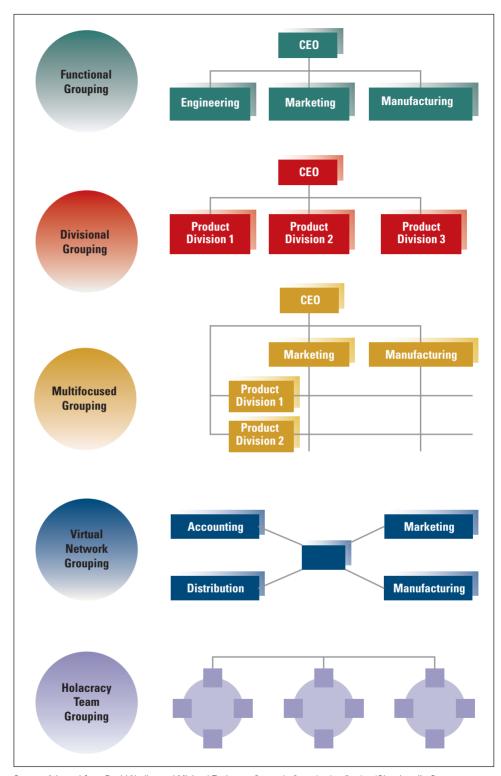
Options for departmental grouping, including functional grouping, divisional grouping, multifocused grouping, virtual network grouping, and holacracy team grouping, are illustrated in Exhibit 3.7. **Departmental grouping** affects employees because they share a common supervisor and common resources, are jointly responsible for performance, and tend to identify and collaborate with one another.⁴²

Functional grouping places together employees who perform similar functions or work processes or who bring similar knowledge and skills to bear. For example, all marketing people work together under the same supervisor, as do all manufacturing employees, all human resources people, and all engineers. For an Internet company, all the people associated with maintaining the website might be grouped together in one department. In a scientific research firm, all chemists may be grouped in a department different from biologists because they represent different disciplines.

Divisional grouping means people are organized according to what the organization produces. All the people required to produce toothpaste—including personnel in marketing, manufacturing, and sales—are grouped together under one executive.

EXHIBIT 3.7

Structural Design Options for Grouping Employees into Departments



Source: Adapted from David Nadler and Michael Tushman, Strategic Organization Design (Glenview, IL: Scott Foresman, 1988), 68.

In huge corporations, such as AT&T, some product or service lines may represent independent businesses, such as AT&T Communications (mobile and other communication services), WarnerMedia (television and movies), and Xander (advertising solutions).

Matrix grouping means an organization embraces two or more structural grouping alternatives simultaneously. An organization may need to group by function and product divisions simultaneously or might need to combine characteristics of several structural options. This structural form is often called a *matrix* structure. The matrix structure will be discussed in more detail later in this chapter.

With virtual network grouping, the organization is a loosely connected cluster of separate components. In essence, departments are separate organizations that are electronically connected for the sharing of information and completion of tasks. Departments can be spread all over the world rather than located together in one geographic location.

Holacracy team grouping is the most recent approach to departmental grouping. With this grouping, the entire organization is made up of self-managing teams that include the people needed to accomplish a specific task or activity.

The organizational forms described in Exhibit 3.7 provide the overall options within which a company's organization chart is drawn and the detailed structure is designed. Each structural design alternative has significant strengths and weaknesses, to which we now turn.

REMEMBER THIS

- The overall design of organization structure indicates three things: required work activities, reporting relationships, and departmental groupings.
- Alternatives for grouping employees and departments into overall structural design include functional grouping, divisional grouping, matrix grouping, virtual network grouping, and holacracy team grouping.

3.4 Functional, Divisional, and Geographic Designs

Functional grouping and divisional grouping are the two most common approaches to structural design.

3.4a Functional Structure

In a **functional structure**, also called a U-form (unitary), activities are grouped together by common function from the bottom to the top of the organization.⁴³ All engineers are located in the engineering department, and the vice president of engineering is responsible for all engineering activities. The same is true in marketing, R&D, and manufacturing. An example of the functional organization structure was shown in Exhibit 3.1 earlier in this chapter.

With a functional structure, all human knowledge and skills with respect to specific activities are consolidated, providing a valuable depth of knowledge for the organization. This structure is most effective when in-depth expertise is critical to meeting organizational goals, when the organization needs to be controlled and coordinated through the vertical hierarchy, and when efficiency is important. The structure can be quite effective if there is little need for horizontal coordination. Exhibit 3.8 summarizes the strengths and weaknesses of the functional structure.

One strength of the functional structure is that it promotes economy of scale within functions. Economy of scale results when all employees are located in the same place and can share facilities. Producing all products in a single plant, for example, enables the plant to acquire the latest machinery. Constructing only one facility instead of separate facilities for each product line reduces duplication and waste. The functional structure also promotes in-depth skill development of employees. Employees are exposed to a range of functional activities within their own department. The main weakness of the functional structure is a slow response to environmental changes that require coordination across departments. The vertical hierarchy becomes overloaded. Decisions pile up, and top managers do not respond fast enough. Other disadvantages of the functional structure are that innovation is slow because of poor coordination, and each employee has a restricted view of overall goals.

3.4b Functional Structure with Horizontal Linkages

Some organizations perform very effectively with a functional structure, and organizing by functions is still the prevalent approach to organization design. However, in today's fast-moving world, very few companies can be successful with a strictly functional structure. For example, Watershed Asset Management is organized by functions such as legal, accounting, and investment, but to ensure coordination and collaboration, founder Meridee A. Moore has everyone sit in one big open room. "There's not much that is distilled or screened," she says. "When we're working on something, there's a lot of back and forth." For a small organization, this informal coordination works fine, but as organizations grow larger, they typically need stronger mechanisms for horizontal linkage.

Managers improve horizontal coordination by using information systems, liaison roles, full-time integrators or project managers (illustrated in Exhibit 3.4), task forces, or teams (illustrated in Exhibit 3.5), and by creating the conditions that encourage relational coordination. One interesting use of horizontal linkages occurred at



As an organization manager, keep these guidelines in mind:

When designing overall organization structure, choose a functional structure when efficiency is important, when in-depth knowledge and expertise are critical to meeting organizational goals, and when the organization needs to be controlled and coordinated through the vertical hierarchy. Use a divisional structure in a large organization with multiple product lines and when you wish to give priority to product goals and coordination across functions.

EXHIBIT 3.8

Strengths and Weaknesses of Functional Organization Structure

Strengths

- 1. Allows economies of scale within functional departments
- 2. Enables in-depth knowledge and skill development
- 3. Enables organization to accomplish functional goals
- 4. Is best with only one or a few products

Weaknesses

- Slow response time to environmental changes
- May cause decisions to pile on top; hierarchy overload
- 3. Leads to poor horizontal coordination among departments
- 4. Results in less innovation
- 5. Involves restricted view of organizational goals

Source: Based on Robert Duncan, "What Is the Right Organization Structure?" Organizational Dynamics (Winter 1979), 59–80.

Karolinska Hospital in Stockholm, Sweden, which had 47 functional departments. Even after top executives cut that down to 11, coordination was still inadequate. The top executive team set about reorganizing workflow at the hospital around patient care. Instead of bouncing a patient from department to department, Karolinska now envisions the illness to recovery period as a process with "pit stops" in admissions, X-ray, surgery, and so forth. The most interesting aspect of the approach is the position of nurse coordinator. Nurse coordinators serve as full-time integrators, troubleshooting transitions within or between departments. The improved horizontal coordination dramatically improved productivity and patient care at Karolinska. The hospital is effectively using horizontal linkages to overcome some of the disadvantages of the functional structure.

3.4c Divisional Structure

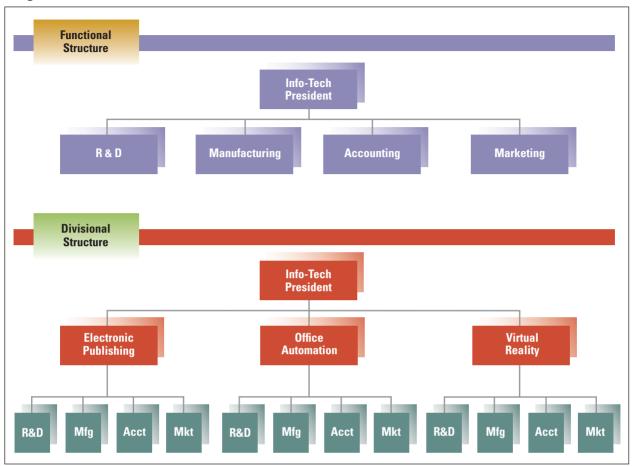
With a divisional structure, also called an M-form (multidivisional) or a decentralized form, separate divisions can be organized with responsibility for individual products, services, product groups, major projects or programs, divisions, businesses, or profit centers. 48 This structure is sometimes also called a product structure or strategic business unit structure. The distinctive feature of a divisional structure is that grouping is based on organizational outputs. For example, LEGO Group shifted from a functional structure to a divisional structure with three product divisions: DUPLO, with its big bricks for the youngest children; LEGO construction toys; and a third category for other forms of LEGO play materials such as buildable jewelry. Each division contained the functional departments necessary for that toy line.⁴⁹ United Technologies Corporation (UTC), which is among the 50 largest U.S. industrial firms, has numerous divisions, including Carrier (air conditioners and heating), Otis (elevators and escalators), Pratt & Whitney (aircraft engines), and Collins Aerospace (technology products for the aerospace and defense industries).⁵⁰ The Chinese online-commerce company Taobao, which is a division of Alibaba Group, is further separated into three divisions that provide three different types of services: linking individual buyers and sellers; a marketplace for retailers to sell to consumers; and a service for people to search across Chinese shopping websites.⁵¹

Organizations tend to shift from functional to divisional structures as they become more complex. ⁵² The difference between a divisional structure and a functional structure is illustrated in Exhibit 3.9. The functional structure can be redesigned into separate product groups, and each group contains the functional departments of R&D, manufacturing, accounting, and marketing. Coordination is maximized across functional departments within each product group. The divisional structure promotes flexibility and change because each unit is smaller and can adapt to the needs of its environment. Moreover, the divisional structure *decentralizes* decision making because the lines of authority converge at a lower level in the hierarchy. The functional structure, by contrast, is *centralized* because it forces decisions all the way to the top before a problem affecting several functions can be resolved.

Strengths and weaknesses of the divisional structure are summarized in Exhibit 3.10. The divisional organization structure is excellent for achieving coordination across functional departments. It works well when organizations can no longer be adequately controlled through the traditional vertical hierarchy and when goals are oriented toward adaptation and change. When Google grew from a small search engine into a giant company operating in areas as diverse as biotechnology and finance, co-founder and CEO Larry Page reorganized into a type of divisional structure to keep adaptation and innovation a thriving part of all the businesses.

EXHIBIT 3.9

Reorganization from Functional Structure to Divisional Structure at Info-Tech





Google and **Alphabet**

Google was founded as a company that did Internet search. Yet by 2015, it was involved in everything from pharmaceuticals to self-driving cars. Google's then-CEO Larry Page and his co-founder Sergey Brin decided to restructure the various businesses under a new parent company, called Alphabet, to give managers in the businesses more autonomy and keep the companies innovative and adaptable. The largest division of Alphabet is Google,



Elijah Nouvelage/File Photo/Reuter:

which includes the traditional business of search and advertising along with other activities. Other divisions include Verily, a life-sciences research organization; self-driving car unit Waymo; CapitalG, which provides late stage venture capital funding; and X Development, which focuses on various experimental products and services. Each business unit has its own goals and budget, each contains all the functions needed to perform its tasks, and each has its own CEO and management team. Management style and culture may also vary among the divisions. For instance, although Google offers napping pods for employees, not all divisions of Alphabet follow suit.

The idea behind Alphabet is that by being smaller and more independent, each unit can be nimbler and more innovative to serve the fast-moving needs and desires of customers. "There can be a lot of cross-company confusion when companies get too big, and this will allow people to build the right set of products for the right users . . ." said Wesley Chan, a Google veteran who is now a partner at venture capital firm Felicis Ventures. 53

Google co-founders Page and Brin serve as CEO and President of Alphabet. Page says the structure will continue to evolve. Many companies find that they need to restructure every few years as they grow larger. Giant, complex organizations such as General Electric and Johnson & Johnson are subdivided into a series of smaller, selfcontained organizations for better control and coordination. In these large, complex companies, the units are sometimes called divisions, businesses, or strategic business units. Johnson & Johnson is organized into three major divisions: Consumer Products, Medical Devices and Diagnostics, and Pharmaceuticals, yet within those three major divisions are more than 250 separate operating units in 57 countries.⁵⁴ Some U.S. government organizations also use a divisional structure to better serve the public. One example is the Internal Revenue Service, which wanted to be more customer oriented. The agency shifted its focus to informing, educating, and serving the public through four separate divisions serving distinct taxpayer groups—individual taxpayers, small businesses, large businesses, and tax-exempt organizations. Each division has its own budget, personnel, policies, and planning staffs that are focused on what is best for each particular taxpayer segment.⁵⁵

The divisional structure has several strengths.⁵⁶ This structure is suited to fast change in an unstable environment and provides high product or service visibility. Since each product line has its own separate division, customers are able to contact the correct division and achieve satisfaction. Coordination across functions is excellent. Each product or service can adapt to requirements of individual customers or regions. The divisional structure typically works best in organizations that have multiple products or services and enough personnel to staff separate functional units. Decision making is pushed down to the divisions. Each division is small enough to be quick on its feet, responding rapidly to changes in the market. Verizon reorganized into three divisions serving different types of customers—Verizon Consumer Group, Verizon Business Group, and Verizon Media Group—to better respond to changing customer needs.

Strengths

- 1. Suited to fast change in unstable environment
- Leads to customer satisfaction because product responsibility and contact points are clear
- 3. Involves high coordination across functions
- 4. Allows units to adapt to differences in products, regions, customers
- Best in large organizations with several products
- 6. Decentralizes decision making

Weaknesses

- Eliminates economies of scale in functional departments
- 2. Leads to poor coordination across product lines
- 3. Eliminates in-depth competence and technical specialization
- 4. Makes integration and standardization across product lines difficult

EXHIBIT 3.10

Strengths and Weaknesses of Divisional Organization Structure

Source: Based on Robert Duncan, "What Is the Right Organization Structure?" *Organizational Dynamics* (Winter 1979).

One disadvantage of using divisional structuring is that the organization loses economies of scale. Instead of 50 research engineers sharing a common facility in a functional structure, 10 engineers may be assigned to each of five product divisions. The critical mass required for in-depth research is lost, and physical facilities have to be duplicated for each product line. Another problem is that product lines become separate from each other, and coordination across product lines can be difficult. As a Johnson & Johnson executive once said, "We have to keep reminding ourselves that we work for the same corporation."

Some companies that have a large number of divisions have had real problems with cross-unit coordination. Sony lost the digital music player business to Apple partly because of poor coordination. With the introduction of the iPod, Apple quickly captured 60 percent of the U.S. market versus 10 percent for Sony. The digital music business depends on seamless coordination. Sony's Walkman did not even recognize some of the music sets that could be made with the company's SonicStage software and thus didn't mesh well with the division selling music downloads.⁵⁸ Unless effective horizontal mechanisms are in place, a divisional structure can hurt overall performance. One division may produce products or programs that are incompatible with products sold by another division, as at Sony. Customers can become frustrated when a sales representative from one division is unaware of developments in other divisions. Task forces and other horizontal linkage devices are needed to coordinate across divisions. A lack of technical specialization is also a problem in a divisional structure. Employees identify with the product line rather than with a functional specialty. R&D personnel, for example, tend to do applied research to benefit the product line rather than basic research to benefit the entire organization.

The problem of coordination and collaboration is amplified in the international arena because organizational units are differentiated not only by goals and work activities, but also by geographical distance, time differences, cultural values, and perhaps language. How can managers ensure that needed coordination and collaboration will take place in their company, both domestically and globally? Coordination is the outcome of information and cooperation. Managers can design systems and structures, as described earlier, to promote horizontal coordination and collaboration.

3.4d Geographic Structure

Another basis for structural grouping is the organization's users or customers. The most common structure in this category is geography. Each region of the country may have distinct tastes and needs. Each geographic unit includes all functions required to produce and market products or services in that region. Large nonprofit organizations such as the Girl Scouts of the USA, Habitat for Humanity, Make-A-Wish Foundation, and United Way of America frequently use a type of geographic structure, with a central headquarters and semiautonomous local units. The national organization provides brand recognition, coordinates fund-raising services, and handles some shared administrative functions, while day-to-day control and decision making is decentralized to local or regional units. World Bank uses a complex type of geographic divisional structure, organized country by country and region by region. To encourage greater coordination and collaboration across regions, Jim Yong Kim, who served as World Bank president from 2012 until early 2019, implemented a sweeping reorganization that overlaid the structure with 14

"global practices," including agriculture, energy, and education, that cut across the bank's different projects, funds, and geographies.⁶⁰

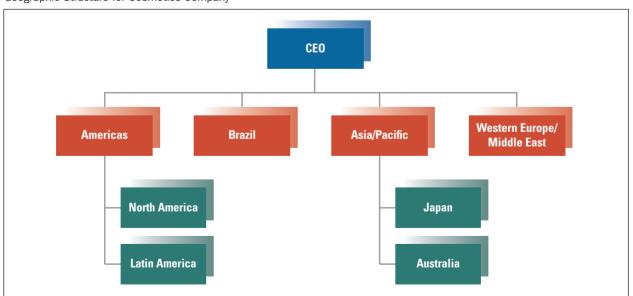
Similarly, multinational corporations may create self-contained units for different countries and parts of the world. Exhibit 3.11 shows an example of a geographic structure for a cosmetics company. This structure focuses managers and employees on specific geographic regions and sales targets. Walmart Stores are organized by geographic regions, such as Walmart Japan, Walmart India, Walmart Brazil, Walmart China, and Walmart Asia. Until recently, U.S. operations were organized largely by function, but managers restructured U.S. operations into three geographic divisions, West, South, and North, making the U.S. organization more like how Walmart operates internationally. Using a geographic structure helps the company expand into new markets and use resources more efficiently.⁶¹

The strengths and weaknesses of a geographic divisional structure are similar to the divisional organization characteristics listed in Exhibit 3.10. The organization can adapt to the specific needs of its own region, and employees identify with regional goals rather than with national goals. Horizontal coordination within a region is emphasized rather than linkages across regions or to the national office.

REMEMBER THIS

- Functional grouping and divisional grouping are the two most common approaches to structural design.
- Each structure has both strengths and weaknesses.
- With functional and divisional structures, managers also use horizontal linkage mechanisms to complement the vertical dimension and achieve coordination of departments and levels into an organizational whole.

EXHIBIT 3.11Geographic Structure for Cosmetics Company

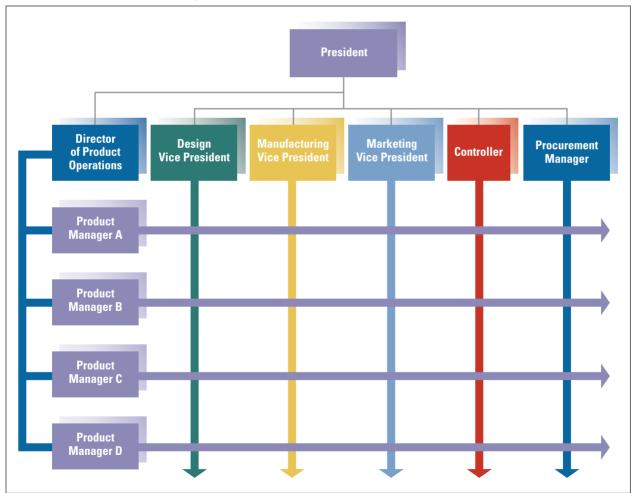


3.5 Matrix Structure

Sometimes, an organization's structure needs to be multifocused in that both product and function or product and geography are emphasized at the same time. One way to achieve this is through the **matrix structure**. ⁶² The matrix can be used when both technical expertise and product innovation and change are important for meeting organizational goals. The matrix structure often is the answer when organizations find that the functional, divisional, and geographic structures combined with horizontal linkage mechanisms will not work.

The matrix is a strong form of horizontal linkage. The unique characteristic of the matrix organization is that both product divisions and functional structures (horizontal and vertical) are implemented simultaneously, as shown in Exhibit 3.12. The product managers and functional managers have equal authority within the organization, and

EXHIBIT 3.12Dual-Authority Structure in a Matrix Organization



employees report to both of them. The matrix structure is similar to the use of full-time integrators or product managers described earlier in this chapter (Exhibit 3.4), except that in the matrix structure the product managers (horizontal) are given formal authority equal to that of the functional managers (vertical).

3.5a Conditions for the Matrix

A dual hierarchy may seem an unusual way to design an organization, but the matrix is the correct structure when the following conditions are present:⁶³

- Condition 1. Pressure exists to share scarce resources across product lines. The organization is typically medium-sized and has a moderate number of product lines. It feels pressure for the shared and flexible use of people and equipment across those products. For example, the organization is not large enough to assign engineers full-time to each product line, so engineers are assigned part-time to several products or projects.
- Condition 2. Environmental pressure exists for two or more critical outputs, such as for in-depth technical knowledge (functional structure) and frequent new products (divisional structure). This dual pressure means a balance of power is needed between the functional and product sides of the organization, and a dual-authority structure is needed to maintain that balance.
- Condition 3. The environmental domain of the organization is both complex and uncertain. Frequent external changes and high interdependence between departments require a large amount of coordination and information processing in both vertical and horizontal directions.

Under these three conditions, the vertical and horizontal lines of authority must be given equal recognition. A dual-authority structure is thereby created so the balance of power between them is equal.

Referring again to Exhibit 3.12, assume the matrix structure is for a clothing manufacturer. Product A is footwear, product B is outerwear, product C is sleepwear, and so on. Each product line serves a different market and customers. As a medium-sized organization, the company must effectively use people from manufacturing, design, and marketing to work on each product line. There are not enough designers to warrant a separate design department for each product line, so the designers are shared across product lines. Moreover, by keeping the manufacturing, design, and marketing functions intact, employees can develop the in-depth expertise to serve all product lines efficiently.

The matrix formalizes horizontal teams along with the traditional vertical hierarchy and tries to give equal balance to both. However, the matrix may shift one way or the other. Many companies have found a balanced matrix hard to implement and maintain because one side of the authority structure often dominates. Consequently, two variations of matrix structure have evolved—the **functional matrix** and the **product matrix**. In a functional matrix, the functional bosses have primary authority and the project or product managers simply coordinate product activities. In a product matrix, by contrast, the project or product managers have primary authority and functional managers simply assign technical personnel to projects and provide advisory expertise as needed. For many organizations, one of these approaches works better than the balanced matrix with dual lines of authority. 64



As an organization manager, keep these guidelines in mind:

Consider a matrix structure when the organization needs to give equal priority to both products and functions because of dual pressures from customers in the environment. Use either a functional matrix or a product matrix if the balanced matrix with dual lines of authority is not appropriate for your organization.

All kinds of organizations have experimented with the matrix, including hospitals, consulting firms, banks, insurance companies, government agencies, and many types of industrial firms.⁶⁵

3.5b Strengths and Weaknesses

The matrix structure is best when environmental change is high and when goals reflect a dual requirement, such as for both product and functional goals. The dual-authority structure facilitates communication and coordination to cope with rapid environmental change and enables an equal balance between product and functional bosses. The matrix facilitates discussion and adaptation to unexpected problems. It tends to work best in organizations of moderate size with a few product lines. The matrix is not needed for only a single product line, and too many product lines make it difficult to coordinate both directions at once. Exhibit 3.13 summarizes the strengths and weaknesses of the matrix structure based on what we know of organizations that use it.⁶⁶

One strength of the matrix is that it enables an organization to meet dual demands from customers in the environment. Resources (people, equipment) can be flexibly allocated across different products, and the organization can adapt to changing external requirements.⁶⁷ This structure also provides an opportunity for employees to acquire either functional or general management skills, depending on their interests.

One disadvantage of the matrix is that some employees experience dual authority, reporting to two bosses and sometimes juggling conflicting demands. This can be frustrating and confusing, especially if roles and responsibilities are not clearly defined by top managers.⁶⁸ Employees working in a matrix need excellent interpersonal and conflict-resolution skills, which may require special training in human relations. The matrix also forces managers to spend a great deal of time in meetings.⁶⁹ Many people working in matrix structures say they spend two days a week in meetings and only 50 percent of the content is relevant to them or their jobs.⁷⁰ If managers do not adapt to the information and power

EXHIBIT 3.13

Strengths and Weaknesses of Matrix Organization Structure

Strengths Weaknesses

- 1. Achieves coordination necessary to meet dual demands from customers
- 2. Flexible sharing of human resources across products
- Suited to complex decisions and frequent changes in unstable environment
- 4. Provides opportunity for both functional and product skill development
- 5. Best in medium-sized organizations with multiple products
- Causes participants to experience dual authority, which can be frustrating and confusing
- Means participants need good interpersonal skills and extensive training
- 3. Is time consuming; involves frequent meetings and conflict-resolution sessions
- 4. Will not work unless participants understand it and adopt collegial rather than vertical-type relationships
- 5. Requires great effort to maintain power balance

Source: Based on Robert Duncan, "What Is the Right Organization Structure? Decision Tree Analysis Provides the Answer," *Organizational Dynamics* (Winter 1979), 429; and Meenu Bhatnagar, "Managing Multiple Bosses: A New Age or HR Conundrum?" Amity Research Centers, 2018, Reference No. 418-0036-1.

sharing required by the matrix, the system will not work. Managers must collaborate with one another rather than rely on vertical authority in decision making. The successful implementation of one matrix structure occurred at a steel company in Great Britain.

As far back as anyone could remember, the steel industry in England was stable and certain. Then in the 1990s and 2000s, excess European steel capacity, an economic downturn, the emergence of the mini mill electric arc furnace, and competition from steelmakers in Germany and Japan forever changed the steel industry.

Englander Steel employed 2,900 people, made 400,000 tons of steel a year (about one percent of Arcelor's output), and was 180 years old. For 160 of those years, a functional structure worked fine. As the environment became more turbulent and competitive, however, Englander Steel managers realized they were not keeping up. Fifty percent of Englander's orders were behind schedule. Profits were eroded by labor, material, and energy cost increases. Market share declined.

In consultation with outside experts, the president of Englander Steel saw that the company had to walk a tightrope. It had to specialize in a few high-value-added products tailored for separate markets, while maintaining economies of scale and sophisticated technology within functional departments. The dual pressure led to an unusual solution for a steel company: a matrix structure.

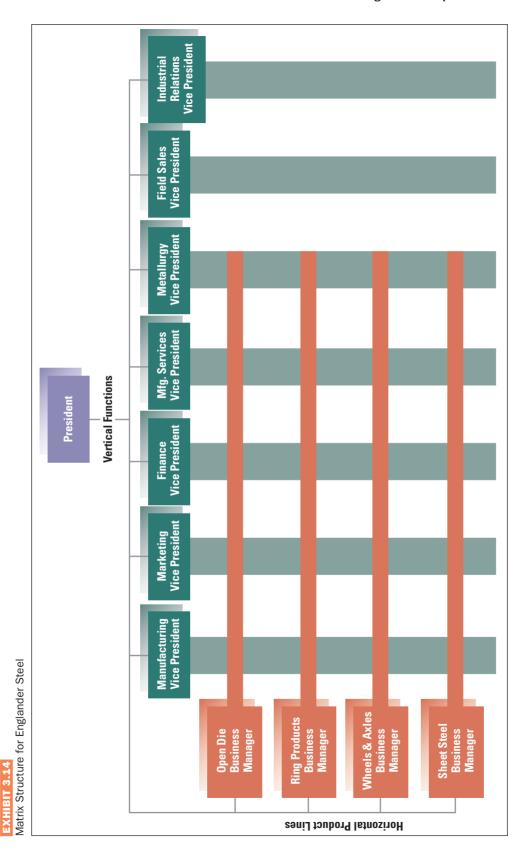
Englander Steel had four product lines: open-die forgings, ring-mill products, wheels and axles, and sheet steel. A business manager was given responsibility for and authority over each line and each manager had the authority needed to meet their targets and to make their lines profitable. Functional vice presidents were responsible for technical decisions. Functional managers were expected to stay abreast of the latest techniques in their areas and to keep personnel trained in new technologies that could apply to product lines. With 20,000 recipes for specialty steels and several hundred new recipes ordered each month, functional personnel had to stay current. Two functional departments—field sales and industrial relations—were not included in the matrix because they worked independently. The final design was a matrix structure with both product and functional relationships, as illustrated in Exhibit 3.14.71

This example illustrates the correct use of a matrix structure. The dual pressure to maintain economies of scale and to market four product lines gave equal emphasis to the functional and product hierarchies. Through continuous meetings for coordination, Englander Steel achieved both economies of scale and flexibility.

REMEMBER THIS

- The matrix structure attempts to achieve an equal balance between the vertical and horizontal dimensions of structure.
- Managers use a matrix when environmental change is high and when the organization's structure needs to be multifocused in that both product and function or product and geography are emphasized at the same time.
- One disadvantage of the matrix is a dual authority structure in which some employees report to two bosses and may have to juggle conflicting demands.





3.6 Virtual Network Structure and Outsourcing

A recent development in organization design extends the concept of horizontal coordination and collaboration beyond the boundaries of the traditional organization. The most widespread design trend in recent years has been the outsourcing of various parts of the organization to outside partners.⁷² **Outsourcing** means to contract out certain tasks or functions, such as manufacturing, human resources, or credit processing, to other companies.

All sorts of organizations are jumping on the outsourcing bandwagon. The Ohio State University outsourced its parking system. The City of Maywood, California, decided to outsource everything from street maintenance to policing and public safety.⁷³ The U.S. military is also increasingly using private military company contractors to handle just about everything except the core activity of fighting battles and securing defensive positions. In the business world, Honda once designed all its new technologies in-house but turned to outsourcing due to high costs and rapid technology advancements for electric vehicles and self-driving vehicles. For example, it has a deal with Chinese start-up SenseTime Company to build camera software for self-driving vehicles, uses a semi-autonomous driving system from German supplier Bosch, and farmed out the development of an electric motor to a joint venture between Honda and Hitachi's auto parts division, in which Hitachi has the majority stake. In the 1960s, founder Soichiro Honda said, "We refuse to depend on anyone else," but the industry has changed. Today, Honda's CEO says, "We want to work with those that possess the best technology, regardless of whether they are Japanese suppliers or American ones or European ones."⁷⁴

Once, a company's units of operation "were either within the organization and 'densely connected' or they were outside the organization and not connected at all," as one observer phrased it.⁷⁵ Today, the lines are so blurred that it can be difficult to tell what is part of the organization and what is not. IBM handles back-office operations for many large companies, but it also outsources some of its own activities to other firms, which in turn may farm out some of their functions to still other organizations.⁷⁶

A few organizations carry outsourcing to the extreme to create a virtual network structure. With a **virtual network structure**, sometimes called a *modular structure*, the firm subcontracts most of its major functions or processes to separate companies and coordinates their activities from a small headquarters organization.⁷⁷

3.6a How the Structure Works

The virtual network organization may be viewed as a central hub surrounded by a network of outside specialists. With a network structure, rather than being housed under one roof or located within one organization, services such as accounting, design, manufacturing, marketing, and distribution are outsourced to separate companies or individuals that are connected electronically to a central office. Organizational partners located in different parts of the world may use networked computers or the Internet to exchange data and information so rapidly and smoothly that a loosely connected network of suppliers, manufacturers, and distributors can look and act like one seamless company. The virtual network form incorporates a free-market style to replace the traditional vertical hierarchy. Subcontractors may flow into and out of the system as needed to meet changing needs.



BRIEFCASE

As an organization manager, keep these guidelines in mind:

Use a virtual network structure for extreme flexibility and rapid response to changing market conditions. Focus on key activities that give the organization its competitive advantage and outsource other activities to carefully selected partners.

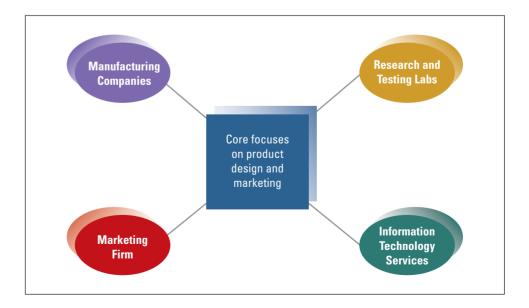
When a business chooses to use a network structure, the hub maintains control over processes in which it has world-class or difficult-to-imitate capabilities and then transfers other work activities—along with the control over them—to other organizations. These partner organizations organize and accomplish their work using their own ideas, assets, and tools.⁷⁸ The idea is that a firm can concentrate on what it does best and contract out everything else to companies with distinctive competence in those specific areas, enabling the organization to do more with less. 79 Nike was a pioneer in using the virtual network structure. Recall from the BookMark in Chapter 1 of this text that the widespread trend toward network structures has been referred to as Nikefication. Executives at Nike were quick to realize that design and marketing provided their company's competitive advantage, so they kept these tasks in-house and formed a network of partners to handle other functions, such as manufacturing. The company's founder, Phil Knight, came up with the idea of outsourcing manufacturing jobs to cut costs. Becoming an early adopter of the virtual organization design propelled Nike into one of the biggest athletic footwear and apparel companies in the world.⁸⁰

With a network structure, it is difficult to answer the question "Where is the organization?" in traditional terms. The different organizational parts are drawn together contractually and coordinated electronically, creating a new form of organization. Much like building blocks, parts of the network can be added or taken away to meet changing needs. Exhibit 3.15 illustrates a simplified network structure for a business such as Nike, showing some of the functions that can be outsourced to other companies.

3.6b Strengths and Weaknesses

Exhibit 3.16 summarizes the strengths and weaknesses of the virtual network structure.⁸² One of the major strengths is that the organization, no matter how small, can be truly global, drawing on resources worldwide to achieve the best quality and price and then selling products or services worldwide just as





Strengths Weaknesses 1. Enables even small organizations to 1. Managers do not have hands-on control obtain talent and resources worldwide over many activities and employees 2. Gives a company immediate scale 2. Requires a great deal of time to manage relationships and potential conflicts with and reach without huge investments in factories, equipment, or distribution contract partners facilities 3. There is a risk of organizational failure if 3. Enables the organization to be highly a partner fails to deliver or goes out of flexible and responsive to changing business needs 4. Employee loyalty and corporate culture 4. Reduces administrative overhead costs might be weak because employees feel they can be replaced by contract services

EXHIBIT 3.16

Strengths and Weaknesses of Virtual Network Structure

Source: Based on R. E. Miles and C. C. Snow, "The New Network Firm: A Spherical Structure Built on a Human Investment Philosophy," *Organizational Dynamics* (Spring 1995), 5–18; Gregory G. Dess, Abdul M. A. Rasheed, Kevin J. McLaughlin, and Richard L. Priem, "The New Corporate Architecture," *Academy of Management Executive* 9, no. 3 (1995), 7–20; N. Anand and R. L. Daft, "What Is the Right Organization Design?" *Organizational Dynamics* 36, no. 4 (2007), 329–344; and H. W. Chesbrough and D. J. Teece, "Organizing for Innovation: When Is Virtual Virtuous?" *Harvard Business Review*, August 2002, 127–134.

easily through subcontractors. The network structure also enables a new or small company to develop products or services and get them to market rapidly without huge investments in factories, equipment, warehouses, or distribution facilities. The ability to arrange and rearrange resources to meet changing needs and best serve customers gives the network structure extreme flexibility and rapid response. New technologies can be developed quickly by tapping into a worldwide network of experts. The organization can continually redefine itself to meet changing technologies and shifting product or market opportunities. A final strength is reduced administrative overhead. Large teams of staff specialists and administrators are not needed. Managerial and technical talent can be focused on key activities that provide competitive advantage while other activities are outsourced.

The virtual network structure also has a number of weaknesses. The primary weakness is a lack of control. K'Nex Brands LP, a family-owned toy company near Philadelphia, brought most of the production of its plastic building toys back to its factory in the United States from subcontractors in China, for instance, to maintain greater control over quality and materials. The network structure takes decentralization to the extreme. Managers do not have all operations under their jurisdiction and must rely on contracts, coordination, and negotiation to hold things together. This also means increased time spent managing relationships with partners and resolving conflicts.

Top managers are smart to maintain organizational control over the activities of key work units rather than contracting out some work unit tasks to other firms.

ANSWER: *Disagree.* Virtual networks and outsourcing forms of organization design have become popular because they offer increased flexibility and more rapid response in a fast-changing environment. Outsourced departments can be added or dropped as conditions change. Keeping control over all activities in-house might be more comfortable for some managers, but it discourages flexibility.



A problem of equal importance is the risk of failure if one organizational partner fails to deliver, has a plant burn down, or goes out of business. Managers in the headquarters organization have to act quickly to spot problems and find new arrangements. Finally, from a human resource perspective, employee loyalty can be weak in a network organization because of concerns over job security. Employees may feel that they can be replaced by contract services. In addition, it is more difficult to develop a cohesive corporate culture. Turnover may be higher because emotional commitment between the organization and employees is low. With changing products, markets, and partners, the organization may need to reshuffle employees at any time to get the correct mix of skills and capabilities.

REMEMBER THIS

- A virtual network structure extends the concept of horizontal coordination and collaboration beyond the boundaries of the organization.
- Activities that provide the organization's competitive advantage are kept in-house, while other functions and activities are outsourced to contract partners.
- Using a virtual network structure enables a company to move quickly to address changing technologies, products, and markets.
- The widespread trend toward network structures has been referred to as Nikefication because Nike was one of the first major companies to use this design.

3.7 Holacracy Team Structure

The most recent approach to organization design involves a shift toward self-management. One extreme self-management model is called a holacracy or holacracy team structure. The design trend toward self-management reflects a fundamental mind-shift in the way human organizations and management are viewed. Self-management goes beyond contemporary ideas such as employee empowerment, flatter organizations, distributed decision making, elimination of bureaucratic red tape, and pushing authority lower in the hierarchy. Complete self-management includes all these ideas, and even more. The traditional management functions of planning, organizing, staffing, and controlling are assigned to all employees. There are no managers to perform these management functions. All organization members are personally responsible for planning their own work, coordinating their actions with others, developing their own personal relationships, acquiring needed resources, and taking corrective action with respect to other members as needed.⁸⁴

Companies such as Morning Star, Valve, W. L. Gore, and Zappos have adopted some form of extreme self-management. Morning Star emphasizes a few key ideas as the basis for its self-management philosophy:⁸⁵

 People are generally happier when they have control over their own life and work.

- It does not make sense to give decision-making authority to the person furthest away from the actual work.
- The traditional hierarchical model is a recipe for a slow painful death.
- There is an undeniable link between freedom and economic prosperity.

The most widely used model of self-management, the holacracy team structure, has been adopted in about 300 organizations. In this organizational design, circles (the holacracy term for teams) are the basic unit and building block of structure, not individuals, departments, or divisions. Each circle shares a common purpose and has decision-making authority over how to do its work and achieve its purpose. For example, there might be a circle for helping to hire new employees or a circle charged with motivating employee professional growth and recognizing employee achievements. Sub-circles can be created for tasks that do not require input from all team members. Members may choose to change circles to follow their specific passions. The holacracy team structure is an extreme organic design composed of fluid teams and no managers. A few informal leaders may emerge within the circles based on who has expertise in the matter at hand. Employees decide when a new circle is needed or when a circle should be abandoned. 86

Within each circle, individual roles are jointly negotiated with other members regarding the tasks needed to accomplish the circle's purpose. People do not have "job descriptions." Each individual has authority over how individual goals are achieved, discretion over resource use, ownership of knowledge related to the work, and accountability for work outcomes. In a holacracy team structure, each individual performs a variety of roles and probably has a role on three to four teams at the same time. The same individual might serve as a design technologist on one team, act as finance advisor on another team, and perform as a meeting facilitator on a third team. The key is that employees discuss their own role with other circle members to define role boundaries and stay coordinated with one another and aligned with each circle's purpose. Employees are encouraged to make decisions at the point of origin. Conflicts are addressed face-to-face without a manager. If there is no resolution, the participants can appeal to a peer council.⁸⁷

Autonomous self-managed team designs such as the holacracy team structure typically start with a written guideline. The circles are nested within a larger structure that individuals can help define. In a holacracy, employees ratify the constitution outlining the rules by which circles are created, changed, or removed. The constitution does not tell people how to do their jobs. It is a broad-brush document describing how circles can form, operate, and govern themselves. The guide describes how to identify and assign roles, the boundaries the roles should have, and how circles interact with each other. At Morning Star, each employee consults with coworkers and writes up a formal agreement known internally as a "colleague letter of understanding." Each employee talks with coworkers to develop an understanding of what is needed. These letters outline jointly agreed upon responsibilities, goals, activities, and metrics for evaluating performance to spell out an employee's work commitments.

This structure is used primarily in small to medium size organizations that face a need for continuous learning and innovation to meet rapidly changing customer needs. One of the largest and most well-known companies using a holacracy team structure is online retailer Zappos.



Zappos

When Zappos shifted to a holacracy team structure, 150 departments disappeared and were replaced by around 500 self-managed circles and sub-circles that were designed around projects and tasks rather than hierarchy and job descriptions. Job titles were a thing of the past. There were no bosses. People would now perform multiple roles in a variety of ever-shifting teams. The "people managing" responsibilities previously held by managers would be split among three team roles—"lead links," who would focus on guiding the specific work; "mentors," who would focus on employee growth and development; and "compensation appraisers," who would concentrate on employees' salaries. No one was assigned to these—or any other—roles. Rather, people would negotiate with one another and allocate duties to those who were best suited to performing them. Employees would move into and out of roles—just as they would move into and out of various circles—as needed to address perceived changes in ongoing needs.

CEO Tony Hsieh had originally planned to shift Zappos to holacracy over a three-year period, but about mid-way through the process, he decided that a more radical approach was needed. He sent employees a memo stating the date when the change to holacracy would occur. Hsieh offered three months' severance pay to anyone who felt that he or she just wasn't interested in working in the new type of organization design. About 200 people took him up on the offer. Those who stayed have been working within and adapting the new structure since 2015.90

O BRIEFCASE

As an organization manager, keep these guidelines in mind:

Consider a holacracy team structure when customer needs and demands change rapidly and when learning and innovation are critical to organizational success. Train managers and employees in the social and team skills to work effectively in a holacracy team structure.

3.7a Characteristics

An illustration of a holacracy team structure appears in Exhibit 3.17. Such an organization has the following characteristics:⁹¹

- Teams (circles), rather than individuals, tasks, departments, or other units, are the fundamental building blocks of the organization. Everyone works on a team in a holacracy.
- Individual roles are collectively defined and assigned within the various teams as needed to accomplish the work.
- Teams evolve, form, and disband as conditions change. As new opportunities, needs, problems, goals, and tasks emerge, organizational members create new teams or circles to address them. One example comes from KETC, the public television station in St. Louis, which forms temporary teams to bring community ideas into its programming surrounding major local or national events.⁹²
- Teams design and govern themselves. Holacracy teams work inside a larger structure of circles that everyone has a hand in shaping. In a holacracy, people generate and agree to a governing constitution that defines the rules by which teams operate, such as the way they should form, how they identify and assign roles, and how members should interact among themselves and with other teams.
- Leadership is distributed and contextual. No one is an assigned "manager."
 The responsibilities of leadership are continually shifting as needs arise, teams change, and new roles are defined.

3.7b Strengths and Weaknesses

As with all structures, the holacracy team structure has both strengths and weaknesses, as listed in Exhibit 3.18.

EXHIBIT 3.17

A Holacracy Team Structure



Source: Based on Jacob Morgan, "The 5 Types of Organizational Structures: Part 5, Holacratic Organizations," Forbes, July 20, 2015, https://www.forbes.com/sites/jacobmorgan/2015/07/20/the-5-types-of-organizational-structures-part-5-holacratic-organizations/#70578f1848a2 (accessed April 4, 2019).

Strengths

- 1. Promotes a focus on teamwork and collaboration
- 2. Promotes rapid, innovative responses to customer needs
- 3. Each employee has a broader view of the organization's purpose
- 4. Decisions are made close to the work
- Improves employee growth via sharing responsibility, making decisions, and being accountable for outcomes

Weaknesses

- 1. Determining individual and team responsibilities is time consuming
- 2. Requires changes in management philosophy and culture
- 3. Traditional managers may baulk when they have to give up power and authority
- 4. Requires significant training of employees in social skills
- 5. Can limit in-depth skill development in a specific function

EXHIBIT 3.18

Strengths and Weaknesses of Holacracy Team Structure The most significant strength of the holacracy team structure is enhanced coordination, which can dramatically increase the company's flexibility and innovative response to shifts in customer needs. For example, Valve made the decision to expand from PC games to hardware because a few employees grew tired of repeated customer requests for hardware that enabled people to play games in their living room. People formed a team to investigate the ideas that resulted in a huge new hardware release.⁹³

In addition, because there are no boundaries between functional departments, employees take a broader view of organizational goals rather than being focused on the goals of a single department. The holacracy team structure promotes an emphasis on teamwork and cooperation so that team members share a commitment to meeting common objectives. Moreover, decisions are made close to the work which avoids the web of hierarchical titles and reporting relationship that make it hard to figure out who decides, requires written justification, and slows everything down, and the decision-maker does not understand the problem. Finally, the holacracy structure can improve the quality of life and personal growth for employees by giving them opportunities to share responsibility, make decisions, and contribute significantly to the organization. Employees are typically enthusiastic about their involvement in bigger projects rather than narrow departmental tasks.

One weakness of the holacracy team structure is that it can be complicated and time-consuming to set up in an existing company because it requires significant changes in culture, job design, management philosophy, and information and reward systems. Traditional managers may baulk when they have to give up power and authority to serve instead as members of various teams. Employees have to be trained with the social skills to work effectively in a team environment. Finally, the team structure can limit in-depth knowledge and skill development in technical areas that could be attained in a functional structure.

REMEMBER THIS

- The most recent approach to organization design involves a shift toward self-management.
- The most widely used model of self-management is the holacracy team structure, which has been adopted in about 300 organizations. In a holacracy, everyone works on a circle (team) and there are no bosses.
- Each circle shares a common purpose and has decision-making authority over how to do its work and achieve its purpose.
- Individual roles are collectively defined and assigned within the various circles, and circles evolve, form, and disband as conditions change.
- Each person performs a variety of roles and may have a role on three or four teams at the same time.
- One of the most well-known companies using a holacracy team structure is Zappos.

3.8 Applications of Structural Design

Each type of structure is applied in different situations and meets different needs. In describing the various structures, we touched briefly on conditions such as environmental stability or change and organizational size that are related to structure.



As an organization manager, keep these guidelines in mind:

Mix and match characteristics of functional, divisional, and holacracy team structures in complex environments to take advantage of the strengths of various structural characteristics and avoid some of the weaknesses. • Employee performance declines and goals are not being met. Employee performance may decline because the structure doesn't provide clear goals, responsibilities, and mechanisms for coordination and collaboration. The structure should reflect the complexity of the market environment yet be straightforward enough for employees to effectively work within.

REMEMBER THIS

- In many companies, top executives combine characteristics of various structural approaches tailored to specific needs. Mixing structural characteristics enables the organization to take advantage of the strengths of various structures and avoid some of the weaknesses.
- Ultimately, managers attempt to find the correct balance between vertical control and horizontal coordination.
- Signs of structural misalignment include lack of collaboration, delayed decision making, lack of innovation, and poor employee performance.
- Finally, an organization chart is only so many lines and boxes on a piece of paper.
 The organization chart provides the structure, but employees provide the behavior.
 The chart is a guideline to encourage people to work together, but management must implement the structure and carry it out.

(S) KEY CONCEPTS

centralization collaboration cross-functional teams decentralization departmental grouping divisional grouping divisional structure functional grouping functional matrix functional structure holacracy team grouping holacracy team structure horizontal linkage integrator liaison role matrix structure multifocused grouping organization structure outsourcing product matrix relational coordination
symptoms of structural deficiency
task force
vertical information system
vertical linkages
virtual network grouping
virtual network structure
virtual team

DISCUSSION QUESTIONS

- 1. To what extent does the true structure of an organization appear on the organization chart? Explain.
- 2. When is a functional structure preferable to a divisional structure?
- 3. Large corporations tend to use different structures in different parts of the organization. Why would that be so?
- 4. What are the primary differences in structure between a traditional, mechanistic organization designed for efficiency and a more flexible organic organization designed for learning?
- 5. What is the difference between a task force and a team? Between liaison role and integrating role? Which

- of these provides the greatest amount of horizontal coordination?
- 6. As a manager, how would you create an organization with a high degree of relational coordination?
- 7. Why do you think the pressure of scarce resources across product lines causes managers to consider a matrix structure?
- 8. The manager of a consumer products firm said, "We use the brand manager position to train future executives." Why do you think the brand manager position is considered a good training ground? Discuss.

- 9. Why do companies using a holacracy team structure have cultures that emphasize openness, employee empowerment, and responsibility? What do you think it would be like to work in a company with such a structure?
- 10. Describe the virtual network structure. What are the advantages and disadvantages of using this structure compared to performing all activities in-house within an organization?

CHAPTER 3 WORKBOOK You and Organization Structure⁹⁷

To better understand the importance of organization structure in your life, do the following assignment.

Work with a partner or a small team to select one of the following situations to organize and to complete this

- A copy and print shop
- A travel agency
- A sports rental (such as Jet Skis or snowmobiles) in a resort area
- A bakery

Background

Organization is a way of gaining some internal efficiency and some power against random forces in the environment. The environment provides the organization with inputs, which include raw materials, human resources, and financial resources. There is a service or product to produce that involves technology. The output goes to clients, a group that must be nurtured. The complexities of the environment and the technology determine the complexity of the organization.

Planning Your Organization

- 1. Write down the mission or purpose of the chosen organization in a few sentences.
- 2. What are the specific tasks to be completed to accomplish the mission?
- 3. Based on the specifics in question 2, develop an organization chart. Each position in the chart will perform a specific task or is responsible for a certain outcome.
- 4. You are into your third year of operation, and your business has been very successful. You want to add a second location a few miles away. What issues will you face running the business at two locations? Draw an organization chart that includes the two business locations.
- 5. Twenty years later you have 75 business locations in five states. What are the issues and problems that have to be dealt with through organizational structure? Draw an organization chart for this organization, indicating such factors as who is responsible for customer satisfaction, how you will know if customer needs are met, and how information will flow within the organization.

CASE FOR ANALYSIS

Holtzclaw Supermarkets, Inc. 98

The first Holtzclaw Supermarkets store was started in 1977 by Sam Holtzclaw and his brother Bob. Both were veterans who wanted to run their own business, so they used their savings to start the small grocery store in Charlotte, North Carolina. The store was immediately successful. The location was good, and Sam Holtzclaw had a winning personality. Store employees adopted Sam's informal style and "serve the customer" attitude. Holtzclaw's increasing circle of customers enjoyed an abundance of good meats and produce.

By 2001, Holtzclaw had over 200 stores. A standard physical layout was used for new stores. Company headquarters moved from Charlotte to Atlanta in 1995. The organization chart for Holtzclaw Supermarkets is shown in Exhibit 3.20. The central offices in Atlanta handled human resources, merchandising, financial, purchasing, real estate, and legal affairs for the entire chain. For management of individual stores, the organization was divided by regions. The southern, southeastern, and southwestern regions each had about 70 stores. Each

region was divided into five districts of 10 to 15 stores each. A district director was responsible for supervision and coordination of activities for the 10 to 15 district

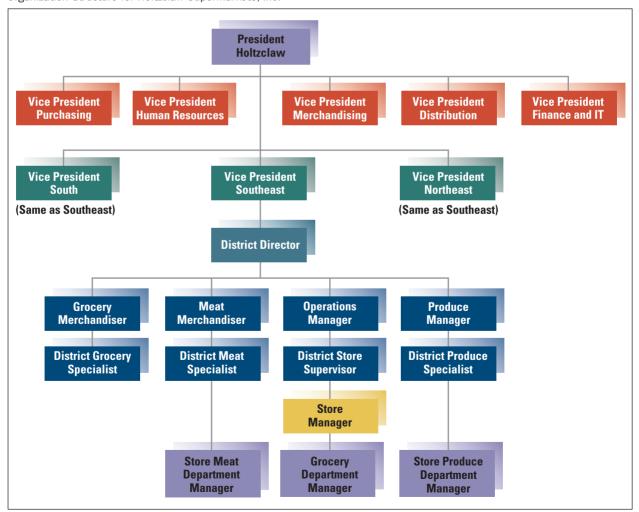
Each district was divided into four lines of authority based on functional specialty. Three of these lines reached into the stores. The produce department manager within each store reported directly to the produce specialist for the division, and the same was true for the meat department manager, who reported directly to the district meat specialist. The meat and produce managers were responsible for all activities associated with the acquisition and sale of perishable products. The store manager's responsibility included the grocery line, frontend departments, and store operations. The store manager was responsible for appearance of personnel, cleanliness, adequate checkout service, and price accuracy. A grocery manager reported to the store manager, maintained inventories, and restocked shelves for grocery items. The district merchandising office was responsible for promotional campaigns, advertising circulars, district advertising, and attracting customers into the stores. The grocery merchandisers were expected to coordinate their activities with each store in the district.

Business for the Holtzclaw chain has dropped off in all regions in recent years—mostly because of increased competition from large discount retailers such as Walmart, Target, and Costco. When these large discounters entered the grocery business, they brought a level of competition unlike any the Holtzclaw brothers had seen before. Holtzclaw had managed to hold its own against larger supermarket chains, but now even the big chains were threatened by Walmart, which became number one in grocery sales in 2001. Holtzclaw managers knew they couldn't compete on price, but they were considering ways they could use advanced information technology to improve service and customer satisfaction and distinguish the store from the large discounters.

However, the most pressing problem was how to improve business with the resources and stores they now had. A consulting team from a major university was hired to investigate store structure and operations. The consultants visited several stores in each region, talking to about 50 managers and employees. The consultants wrote a report that pinpointed four problem areas to be addressed by store executives.

1. The chain was slow to adapt to change. Store layout and structure were the same as had been designed 15 years ago. Each store did things the same way, even though some stores were in low-income areas and other stores in suburban areas. A new computerized supply chain management system for ordering and stocking had been developed, but after two years it was only partially implemented in the stores. Other proposed information technology (IT) initiatives were still "on the back burner," not yet even in the development stage.

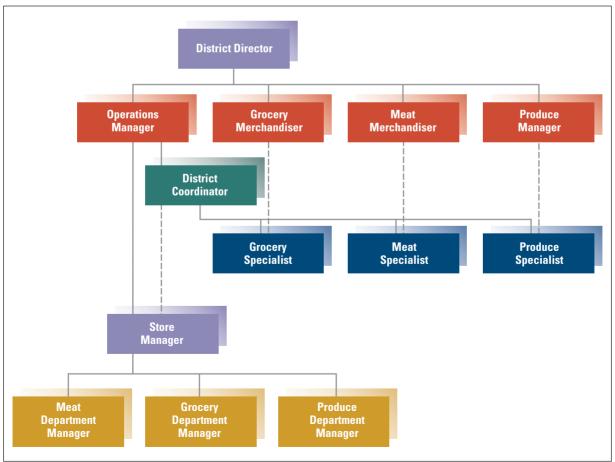
EXHIBIT 3.20Organization Structure for Holtzclaw Supermarkets, Inc.



- 2. Roles of the district store supervisor and the store manager were causing dissatisfaction. Store managers wanted more decentralization and freedom to tailor store inventory, and to carry specialty products, to fit their specific market clientele as a way to boost sales. The store managers also wanted to learn general management skills for potential promotion into district or regional management positions. However, their jobs restricted them to narrow operational activities with little authority and they learned little about merchandising, meat, and produce. Moreover, district store supervisors used store visits to inspect for cleanliness and adherence to operating standards rather than to train the store manager and help coordinate operations with perishable departments. Close supervision on the operational details had become the focus of operations management rather than development, training, and coordination.
- 3. Cooperation within stores was low and morale was poor.
 The informal, friendly atmosphere originally created by
 Sam Holtzclaw was gone. One example of this problem
 occurred when the grocery merchandiser and store

- manager in a Louisiana store decided to promote Coke and Diet Coke as a loss leader. Thousands of cartons of Coke were brought in for the sale, but the stockroom was not prepared and did not have room. The store manager wanted to use floor area in the meat and produce sections to display Coke cartons, but those managers refused. The produce department manager said that Diet Coke did not help his sales and it was okay with him if there was no promotion at all.
- 4. Long-term growth and development of the store chain would probably require re-evaluation of long-term strategy. The percent of market share going to traditional grocery stores was declining nationwide due to competition from large superstores and discount retailers. In the near future, Holtzclaw might need to introduce nonfood items into the stores for one-stop shopping, add specialty or gourmet sections within stores, and investigate how new technology could help distinguish the company, such as through targeted marketing or online promotions via Facebook

EXHIBIT 3.21Proposed Reorganization of Holtzclaw Supermarkets, Inc.



or Google, providing superior service and convenience, and offering their customers the best product assortment and availability.

To solve the first three problems, the consultants recommended reorganizing the district and the store structure as illustrated in Exhibit 3.21. Under this reorganization, the meat, grocery, and produce department managers would all report to the store manager. The store manager would have complete store control and would be responsible for coordination of all store activities. The district supervisor's role would be changed from supervision to training and development. The district supervisor would head a team that included himself and several meat, produce, and merchandise specialists who would visit area stores as a team to provide advice and help for the store managers and other employees. The team would act in a liaison capacity between district specialists and the stores.

Ouestions

1. In general, how did Holtzclaw's first organization structure contribute to the dissatisfaction of store managers, poor coordination, and Holtzclaw's slow adaptation to change?

The consultants were enthusiastic about the proposed structure. With the removal of one level of district operational supervision, store managers would have more freedom and responsibility. The district liaison team would establish a cooperative team approach to management that could be adopted within stores. Focusing store responsibility on a single manager would encourage coordination within stores and adaptation to local conditions. It would also provide a focus of responsibility for storewide administrative changes.

The consultants also believed that the proposed structure could be expanded to accommodate nongrocery lines and gourmet units if these were included in Holtzclaw's future plans. Within each store, a new department manager could be added for pharmacy, gourmet/specialty items, an on-site bakery, or other major departments. The district team could be expanded to include specialists in these lines, as well as an information technology coordinator to act as liaison for stores in the district.

- 2. How would the proposed reorganization address the problems in question 1?
- 3. What disadvantages might emerge over time with the proposed reorganization?

CASE FOR ANALYSIS | Aquarius Advertising Agency⁹⁹

The Aquarius Advertising Agency is a medium-sized firm that offered two basic services to its clients: customized plans for the content of an advertising campaign (e.g., slogans and layouts) and complete plans for media (e.g., radio, TV, newspapers, billboards, and Internet). Additional services included aid in marketing and distribution of products and marketing research to test advertising effectiveness.

Its activities were organized in a traditional manner. The organization chart is shown in Exhibit 3.22. Each department included similar functions.

Each client account was coordinated by an account executive who acted as a liaison between the client and the various specialists on the professional staff of the operations and marketing divisions. The number of direct communications and contacts between clients and Aquarius specialists, clients and account executives, and Aquarius specialists and account executives is indicated in Exhibit 3.23. These sociometric data were gathered by a consultant who conducted a study of the patterns of formal and informal communication. Each intersecting cell of Aquarius personnel and the clients contains an index of the direct contacts between them.

Although an account executive was designated to be the liaison between the client and specialists within the agency, communications frequently occurred directly between clients and specialists and bypassed the account executive. These direct contacts involved a wide range of interactions, such as meetings, telephone calls, and e-mail messages. A large number of direct communications occurred between agency specialists and their counterparts in the client organization. For example, an art specialist working as one member of a team on a particular client account would often be contacted directly by the client's in-house art specialist, and agency research personnel had direct communication with research personnel of the client firm. Also, some of the unstructured contacts often led to more formal meetings with clients in which agency personnel made presentations, interpreted and defended agency policy, and committed the agency to certain courses of action.

Both hierarchical and professional systems operated within the departments of the operations and marketing divisions. Each department was organized hierarchically with a director, an assistant director, and several levels of authority. Professional communications were widespread and mainly concerned with sharing knowledge and techniques, technical evaluation of work, and development of professional interests. Control in each department was exercised mainly through control of promotions and supervision of work done by subordinates. Many account executives, however, felt the need for more influence, and one commented:

EXHIBIT 3.22

Aquarius Advertising Agency Organization Chart

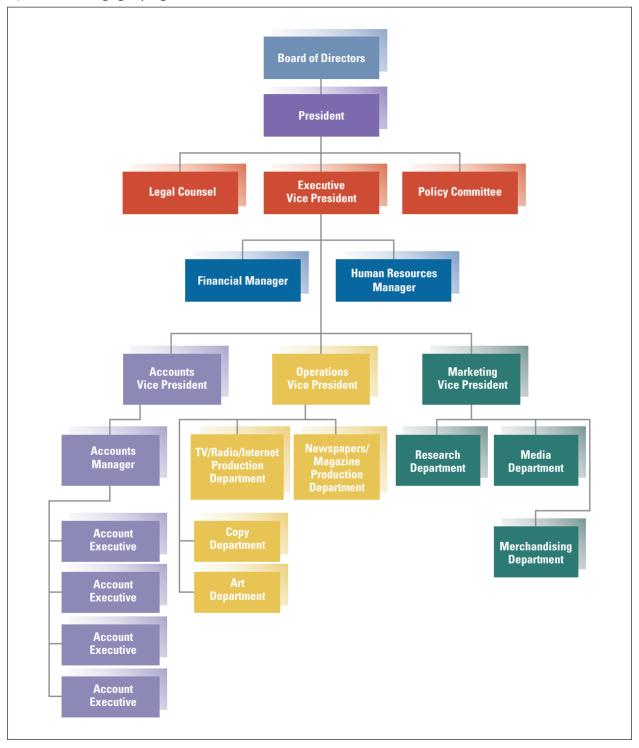


EXHIBIT 3.23

Sociometric Index of Aquarius Personnel and Clients

F = Frequent—daily

O = Occasional—once or twice per project

N = None

	Clients	Account Manager	Account Executives	TV/Radio Specialists	Newspaper/Magazine Specialists	Copy Specialists	Art Specialists	Merchandising Specialists	Media Specialists	Research Specialists
Clients	X	F	F	N	N	0	0	0	0	0
Account Manager		X	F	N	N	N	N	N	N	N
Account Executives			Х	F	F	F	F	F	F	F
TV/Radio Specialists				X	N	0	0	N	N	0
Newspaper/Magazine Specialists					Х	0	0	N	0	0
Copy Specialists						X	N	0	0	0
Art Specialists							Х	0	0	0
Merchandising Specialists								Х	F	F
Media Specialists									Х	F
Research Specialists										Χ

Creativity and art. That's all I hear around here. It is hard as hell to effectively manage six or seven hotshots who claim they have to do their own thing. Each of them tries to sell his or her idea to the client, and most of the time I don't know what has happened until a week later. If I were a despot, I would make all of them check with me first to get approval. Things would sure change around here.

The need for reorganization was made more acute by changes in the environment. Within a short period of time, there was a rapid turnover in the major accounts handled by the agency. It was typical for advertising agencies to gain or lose clients quickly, often with no advance warning as consumer behavior and lifestyle changes emerged and product innovations occurred.

An agency reorganization was one solution proposed by top management to increase flexibility in this unpredictable environment. The reorganization would be aimed at reducing the agency's response time to environmental changes and at increasing cooperation and communication among specialists from different departments. The top managers are not sure what type of reorganization is appropriate. They would like your help analyzing their context and current structure and welcome your advice on proposing a new structure.

Ouestions

- 1. Analyze Aquarius with respect to the five contextual variables described in Chapter 1. Which of the five contextual variables would you say is having the greatest impact on Aquarius?
- 2. Design a new organization structure that takes into consideration the information flows in Exhibit 3.23 as well as the most significant contextual variable.
- 3. Would a matrix structure be feasible for Aquarius? What is your evidence?

ENDNOTES

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