CHAPTER 6

Organization Structure and Design

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Learning Outcomes

After studying this chapter, you should be able to:

1. Identify the basic elements of organizations.
2. Describe the bureaucratic perspective on organization design.
3. Identify and explain key situational influences on organization design.
4. Describe the basic forms of organization design that characterize many organizations.
5. Identify and describe emerging issues in organization design.

Management in Action

Authority & Function at A&F

"Paying $90 for torn jeans isn't that cool anymore."

—Analyst on declining sales at Abercrombie & Fitch

Along with American Eagle and Aéropostale, Abercrombie & Fitch (A&F) is one of the "Three A's" of retailing for younger consumers, the three largest specialty retailers catering to young adults ages 18 to 22 (and up). Look around your college classroom and you'll probably spy at least one A&F item—a cap, a shirt, a pair of jeans. Abercrombie & Fitch, a line of "casual luxury" apparel and other products, is actually one of five brands owned by Ohio-based A&F Corporation. The company's other brands include abercrombie ("classic cool" for preteens), Hollister ("SoCal" for teenagers), RUEHL 925 (a higher-priced brand for post-collegiates that recently closed), and Gilly Hicks (Australian-themed lounge and underwear for women).

Obviously, A&F's businesses are related, and its overall corporate strategy is best characterized as one of *related diversification.* Based on this strategy, one would assume that A&F's organizational design reflects a *divisional* structure, a form favored by companies that operate multiple related businesses. It is interesting, however, that A&F relies instead on a *functional* design based on functional departments (groups responsible for specific company functions).

In general, some form of divisional structure is preferred by most firms that pursue strategies of related diversification. Limited Brands, for example, a close competitor (and one-time parent) of A&F, uses a divisional structure to coordinate

Nano Calvo/Alamy

Abercrombie & Fitch has been a fashion mainstay for younger consumers for years. Although the firm has grown to be a huge retailer, it still uses a form of organization design more commonly found in much smaller businesses.

brands such as Victoria's Secret, Bath & Body Works, Pink, and the White Barn Candle Company. Each unit is empowered to make autonomous decisions but can also access companywide staff support in areas such as logistics, information technology, real estate, and store design. At A&F, on the other hand, every employee is assigned to one of eight basic business functions, such as planning, purchasing, distribution, or stores, each of which is headed by a president. Why this design? Basically, A&F wants every employee to develop highly specialized skills within a functional area. This design is also more effective in coordinating activities within a function.

The company's history also accounts in part for its choice of a functional structure. From its founding in 1892 until a bankruptcy in 1977, Abercrombie & Fitch was a high-end sporting-goods retailer. In 1978, Oshman's, a Houston-based sporting-goods chain, purchased the company brand and trademark and, for 11 years, operated a combination retail chain and catalog company, selling an eclectic line of products ranging from tweed jackets to exercise machines. Limited Brands purchased the brand in 1988, putting it on preppy, upscale clothing for young adults. Nine years later, Limited sold 16 percent of the company through a public stock sale, and when the remaining shares were sold to the public in 1998, A&F became an independent company. In its current incarnation, then, A&F started out as a division of a larger firm, so it makes sense that its structure would be much like that of one division in a multidivisional corporation.

It's also interesting to note that, even before the spinoff from Limited, A&F had begun to establish its own culture and its own pattern of growth. Michael Jeffries, a retail-industry veteran, became president in 1992 and undertook to transform the company into the retailer of choice for younger consumers. Jeffries quickly managed to attach the brand to an idealized lifestyle, emphasizing apparel that complemented youth, good looks, and good times. The transformation turned out to be highly profitable, with sales increasing from $85 million in 1992 to $165 million in just two years. During the same period, the number of stores in the chain grew from 36 to 67, and in 1999, with 212 stores nationwide, A&F topped $1 billion in sales. In the same year, A&F started its abercrombie division for children and preteens, and a year later, it launched Hollister, the first of its "lifestyle" chains. By the end of 2002, the multidivision company was running 485 A&F stores, 144 abercrombie shops, and 32 Hollister outlets. Sales for the year were just under $1.4 billion. RUEHL opened in 2004 and Gilly Hicks in 2008. Today, A&F Corporation operates around 1,100 stores.

And yet A&F is still organized as if it were one big company with one big brand and a single division. The main advantage of this choice can be explained as a desire to exercise top-down control over each brand by separating and controlling all the functions on which every brand—that is, every store type—depends. Regardless of how A&F is organized and otherwise managed, one thing is clear: It's the way it is because that's the way CEO Jeffries wants it. Jeffries took over a firm that was losing $25 million a year, declared that survival depended on becoming a "young, hip, spirited company," and engineered a reversal of fortunes by turning it into something completely new, a retailer that celebrates what one observer calls "the vain, highly constructed male." (A&F has had much less influence on women's fashion.)

Like many other retailers, A&F struggled during 2009 and 2010. The firm had always refused to discount, so some customers began to look elsewhere. To help combat the downturn, A&F closed RUEHL and started offering some limited discounting. These measures, along with the rebounding economy, helped A&F start to turn things around recently. In 2013, the firm reported sales of $3.5 billion and a modest profit. Jeffries is under contract through 2014 but will likely retire when the contract expires.[1]

All managers need the assistance of others to succeed and so must trust the members of their team to do their jobs and carry out their responsibilities. And the team members themselves need the support of their boss and a clear understanding of their role in the organization. Indeed, the working relationship between managers and their subordinates is one of the most critical elements comprising an organization. As you will see in this chapter, managing the basic frameworks that organizations use to get their work done—structure and design—is a fundamental part of the management process.

This chapter, the first of three devoted to organizing, discusses many of the critical elements of organization structure and design that managers can control. We first identify and describe the various elements of organizing. Next, we explore how those elements can be combined to create an overall design for the organization. Next, we introduce situational factors and how they impact organization design. We conclude by presenting emerging issues in organization design.

THE BASIC ELEMENTS OF ORGANIZING

The term *organization structure and design* refers to the overall set of elements that can be used to configure an organization. This section introduces and describes these elements: job specialization, departmentalization, reporting relationships, distribution of authority, and coordination.

Job Specialization

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

The first building block of organization structure is job specialization. **Job specialization** is the degree to which the overall task of the organization is broken down and divided into smaller component parts. For example, when Walt Disney started his company, he did everything himself—wrote cartoons, drew them, added character voices, and then marketed them to theaters. As the business grew, though, he eventually hired others to perform many of these same functions. As growth continued, so, too, did specialization. For example, as animation artists work on Disney movies today, they may specialize in generating computer images of a single character or doing only background scenery. Others provide voices, and marketing specialists develop promotional campaigns. Today, the Walt Disney Company has literally thousands of different specialized jobs. Clearly, no one person could perform them all.

Benefits and Limitations of Specialization Job specialization provides four benefits to organizations.[2] First, workers performing small, simple tasks will become very proficient at each task. Second, transfer time between tasks decreases. If employees perform several different tasks, some time is lost as they stop doing the first task and start doing the next. Third, the more narrowly defined a job is, the easier it is to develop specialized equipment to assist with that job. Fourth, when an employee who performs a highly specialized job is absent or resigns, the manager is able to train someone new at relatively low cost. Although specialization is generally thought of in terms of operating jobs, many organizations have extended the basic elements of specialization to managerial and professional levels.[3]

On the other hand, job specialization can have negative consequences. The foremost criticism is that workers who perform highly specialized jobs may become bored and dissatisfied. The job may be so specialized that it offers no challenge or stimulation. Boredom and monotony set in, absenteeism rises, and the quality of the work may suffer. Furthermore, the anticipated benefits of specialization do not always occur. For example, a classic study conducted at Maytag found that the time spent moving work in process from one worker to another was greater than the time needed for the same individual to change from job to job.[4] Thus, although some degree of specialization is necessary, it should not be carried to extremes because of the possible negative consequences. Managers must be sensitive to situations in which extreme specialization should be avoided. And indeed, several alternative approaches to designing jobs have been developed in recent years.

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

Alternatives to Specialization To counter the problems associated with specialization, managers have sought other approaches to job design that achieve a better balance between organizational demands for efficiency and productivity and individual needs for creativity and autonomy. Five alternative approaches are job rotation, job enlargement, job enrichment, job characteristics approach, and work teams.[5]

Job rotation involves systematically moving employees from one job to another. A worker in a warehouse might unload trucks on Monday, carry incoming inventory to storage on Tuesday, verify invoices on Wednesday, pull outgoing inventory from storage on Thursday, and load trucks on Friday. Thus, the jobs do not change, but instead workers move from job to job. Unfortunately, for this very reason, job rotation has not been very successful in enhancing employee motivation or satisfaction. Jobs that are amenable to rotation tend to be relatively standard and routine. Workers who are rotated to a "new" job may be more satisfied at first, but satisfaction soon wanes. Although many companies (among them Raytheon, Ford, and Prudential Insurance) have tried job rotation, it is most often used today as a training device to improve worker skills and flexibility. Similarly, the TSA rotates security screeners at airports several times a day to offset problems of boredom that might set in if the same task were being performed all the time. The Walt Disney World resort swimming pool lifeguards rotate stations every half hour to help them maintain focus on their task.

job enlargement
An alternative to job specialization that increases the total number of tasks that workers perform

Job enlargement was developed to increase the total number of tasks workers perform. As a result, all workers perform a wide variety of tasks, which presumably reduces the level of job dissatisfaction. Many organizations have used job enlargement, including IBM, Detroit Edison, AT&T, the U.S. Civil Service, and Maytag. At Maytag, for example, the assembly line for producing washing-machine water pumps was systematically changed so that work that had originally been performed by six workers, who passed the work sequentially from one person to another, was performed by four workers, each of whom assembled a complete pump.[6] Unfortunately, although job enlargement does have some positive consequences, those are often offset by some disadvantages: (1) training costs usually increase, (2) unions have argued that pay should increase because the worker is doing more tasks, and (3) in many cases the work remains boring and routine even after job enlargement.

Paulo Fridman/Corbis

Many products like Maytag washers and dryers are manufactured using job specialization and assembly line technology. While this approach promotes efficiency, it can also lead to monotony and worker boredom. To help counter these negative effects, Maytag has experimented with job enlargement and other alternatives to job specialization.

job enrichment
An alternative to job specialization that attempts to increase both the number of tasks a worker does and the control the worker has over the job

A more comprehensive approach, **job enrichment**, assumes that increasing the range and variety of tasks is not sufficient by itself to improve employee motivation.[7] Thus, job enrichment attempts to increase both the number of tasks a worker does and the control the worker has over the job. To implement job enrichment, managers remove some controls from the job, delegate more authority to employees, and structure the work in complete, natural units. These changes increase subordinates' sense of responsibility. Another part of job enrichment is to continually assign new and challenging tasks, thereby increasing employees' opportunity for growth and advancement. AT&T, Texas Instruments, IBM, and General Foods are among the firms that have used job enrichment. This approach, however, also has disadvantages. For example, work systems need to be analyzed before enrichment, but this seldom happens, and managers rarely ask for employee preferences when enriching jobs.

job characteristics approach
An alternative to job specialization that suggests that jobs should be diagnosed and improved along five core dimensions, taking into account both the work system and employee preferences

The **job characteristics approach** is an alternative to job specialization that does take into account the work system and employee preferences.[8] As illustrated in Figure 6.1, the job characteristics approach suggests that jobs should be diagnosed and improved along five core dimensions:

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

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

work teams
An alternative to job specialization that allows an entire group to design the work system it will use to perform an interrelated set of tasks

Another alternative to job specialization is **work teams**. Under this arrangement, a group is given responsibility for designing the work system to be used in performing an interrelated set of tasks. In the typical assembly-line system, the work flows from one worker to the next, and each worker has a specified job to perform. In a work team, however, the group itself decides how jobs will be allocated. For example, the work team assigns specific tasks to members, monitors and controls its own performance, and has autonomy over work scheduling.[9]

Grouping Jobs: Departmentalization

departmentalization
The process of grouping jobs according to some logical arrangement

The second element of organization structure is the grouping of jobs according to some logical arrangement. The process of grouping jobs is called **departmentalization**. When organizations are small, the owner-manager can personally oversee everyone who works there. As an organization grows, however, personally supervising all the employees becomes more and more difficult for the owner-manager. Consequently, new managerial positions are created to supervise the work of others. Employees are not assigned to particular managers randomly. Rather, jobs are grouped according to some plan. The logic embodied in such a plan is the basis for all departmentalization.[10]

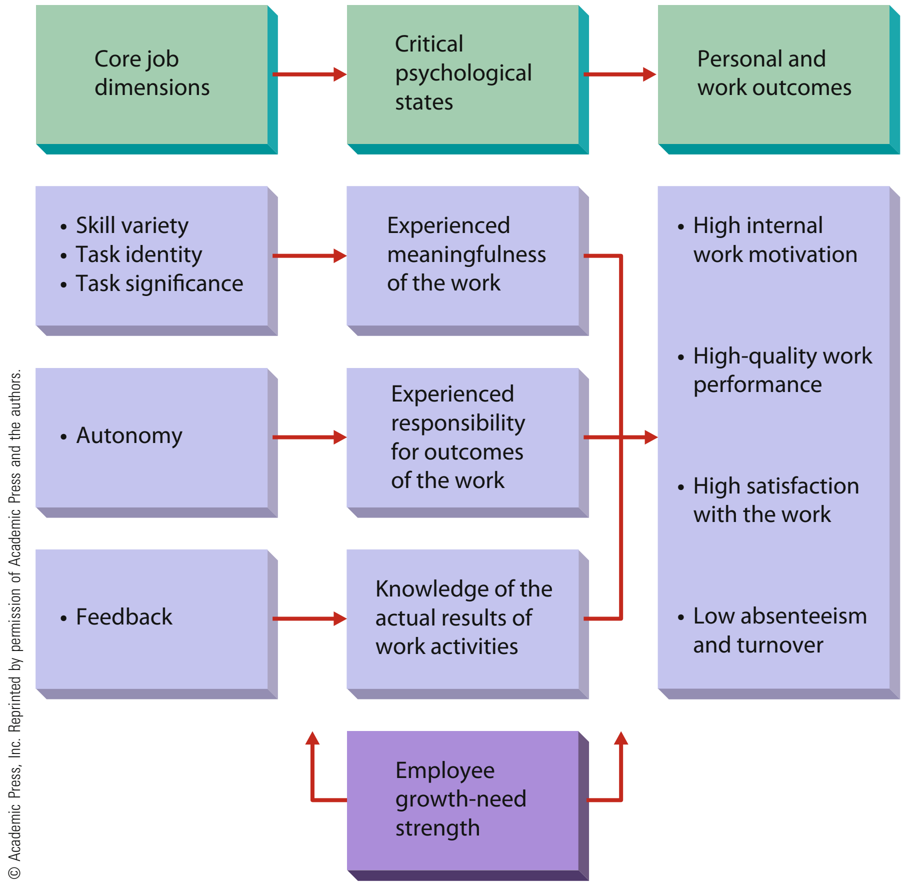


FIGURE 6.1

The Job Characteristics Approach

The job characteristics approach to job design provides a viable alternative to job specialization. Five core job dimensions may lead to critical psychological states that, in turn, may enhance motivation, performance, and satisfaction while also reducing absenteeism and turnover.

Source: J. R. Hackman and G. R. Oldham, "Motivation through the Design of Work: Test of a Theory," *Organizational Behavior and Human Performance*, 1976, Vol. 16, pp. 250–279.

functional departmentalization
Grouping jobs involving the same or similar activities

Functional Departmentalization The most common base for departmentalization, especially among smaller organizations, is by function. **Functional departmentalization** groups together those jobs involving the same or similar activities. (The word *function* is used here to mean organizational functions such as finance and production, rather than the basic managerial functions, such as planning or controlling.) This approach, which is most common in smaller organizations, has three primary advantages. First, each department can be staffed by experts in that functional area. Marketing experts can be hired to run the marketing function, for example. Second, supervision is facilitated because an individual manager needs to be familiar with only a relatively narrow set of skills. And, third, coordinating activities inside each department is easier.

On the other hand, as an organization begins to grow in size, several disadvantages of this approach may emerge. For one, decision making tends to become slower and more bureaucratic. Employees may also begin to concentrate too narrowly on their own unit and lose sight of the total organizational system. Finally, accountability and performance become increasingly difficult to monitor. For example, determining whether a new product fails because of production deficiencies or a poor marketing campaign may not be possible.

product departmentalization
Grouping activities around products or product groups

Product Departmentalization **Product departmentalization**, a second common approach, involves grouping and arranging activities around products or product groups. Most larger businesses adopt this form of departmentalization for grouping activities at the business or corporate level. Product departmentalization has three major advantages. First, all activities associated with one product or product group can be easily integrated and coordinated. Second, the speed and effectiveness of decision making are enhanced. Third, the performance of individual products or product groups can be assessed more easily and objectively, thereby improving the accountability of departments for the results of their activities.

Product departmentalization also has two major disadvantages. For one, managers in each department may focus on their own product or product group to the exclusion of the rest of the organization. For example, a marketing manager may see his or her primary duty as helping the group rather than helping the overall organization. For another, administrative costs rise because each department must have its own functional specialists for areas such as market research and financial analysis.

customer departmentalization
Grouping activities to respond to and interact with specific customers or customer groups

Customer Departmentalization Under **customer departmentalization**, the organization structures its activities to respond to and interact with specific customers or customer groups. The lending activities in most banks, for example, are usually tailored to meet the needs of different kinds of customers (business, consumer, mortgage, and agricultural loans). The basic advantage of this approach is that the organization is able to use skilled specialists to deal with unique customers or customer groups. It takes one set of skills to evaluate a balance sheet and lend $5,000,000 for operating capital and a different set of skills to evaluate an individual's creditworthiness and lend $40,000 for a new car. However, a fairly large administrative staff is required to integrate the activities of the various departments. In banks, for example, coordination is necessary to make sure that the organization does not overcommit itself in any one area and to handle collections on delinquent accounts from a diverse set of customers.

location departmentalization
Grouping jobs on the basis of defined geographic sites or areas

Location Departmentalization **Location departmentalization** groups jobs on the basis of defined geographic sites or areas. The defined sites or areas may range in size from a hemisphere to only a few blocks of a large city. Transportation companies, police departments (precincts represent geographic areas of a city), and the Federal Reserve Bank all use location departmentalization. The primary advantage of location departmentalization is that it enables the organization to respond easily to unique customer and environmental characteristics in the various regions. On the negative side, a larger administrative staff may be required if the organization must keep track of units in scattered locations.

Establishing Reporting Relationships

The third basic element of organizing is the establishment of reporting relationships among positions. The purpose of this activity is to clarify the chain of command and the span of management.

chain of command
A clear and distinct line of authority among the positions in an organization

Chain of Command Chain of command is an old concept, first popularized in the early years of the twentieth century. For example, early writers about the **chain of command** argued that clear and distinct lines of authority need to be established among all positions in an organization. The chain of command actually has two components. The first, called *unity of command*, suggests that each person within an organization must have a clear reporting relationship to one and only one boss (as we see later, newer models of organization design routinely—and successfully—violate this premise). The second, called the *scalar principle*, suggests that there must be a clear and unbroken line of authority that extends from the lowest to the highest position in the organization. The popular saying "The buck stops here" is derived from this idea—someone in the organization must ultimately be responsible for every decision.

span of management
The number of people who report to a particular manager

Span of Management Another part of establishing reporting relationships is determining how many people will report to each manager. This defines the **span of management** (sometimes called the *span of control*). For years, managers and researchers sought to determine the optimal span of management. Today, we recognize that the span of management is a crucial factor in structuring organizations but that there are no universal, cut-and-dried prescriptions for an ideal or optimal span.[11]

Tall Versus Flat Organizations In recent years, managers have begun to focus attention on the optimal number of layers in their organizational hierarchy. Having more layers results in a taller organization, whereas having fewer layers results in a flatter organization. What difference does it make whether the organization is tall or flat? One early study at Sears found that a flat structure led to higher levels of employee morale and productivity.[12] Researchers have also argued that a tall structure is more expensive (because of the larger number of managers involved) and that it fosters more communication problems (because of the increased number of people through whom information must pass). On the other hand, a wide span of management in a flat organization may result in a manager having more administrative responsibility (because there are fewer managers) and more supervisory responsibility (because there are more subordinates reporting to each manager). If these additional responsibilities become excessive, the flat organization may suffer.[13]

Many experts agree that businesses can function effectively with fewer layers of organization than they currently have. The Franklin Mint, for example, reduced its number of management layers from 6 to 4. At the same time, the CEO increased his span of management from 6 to 12. The British firm Cadbury PLC, maker of Cadbury Dairy chocolates, Trident gum, and other confectionary products, recently eliminated a layer of management separating the CEO and the firm's operating units. The specific reasons for the change were to improve communication between the CEO and the operating unit heads and to speed up decision making.[14] The "Leading the Way" feature provides another recent example of a CEO leading a firm toward a flatter organization. One additional reason for this trend is that improved communication technologies such as e-mail and text messaging allow managers to stay in touch with a larger number of subordinates than was possible even just a few years ago.[15]

authority
Power that has been legitimized by the organization

Distributing Authority

Another important building block in structuring organizations is the determination of how authority is to be distributed among positions. **Authority** is power that has been legitimized by the organization.[16] Two specific issues that managers must address when distributing authority are delegation and decentralization.[17]

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

The Delegation Process Delegation is the establishment of a pattern of authority between a superior and one or more subordinates. Specifically, **delegation** is the process by which managers assign a portion of their total workload to others.[18] In theory, the delegation process involves three steps. First, the manager assigns responsibility or gives

LEADING THE WAY

Delayering as a Defense Mechanism

AP Images/Dan Joling

When Cynthia Carroll was appointed CEO of Anglo American PLC, the firm employed a rigid, bureaucratic structure. Ms. Carroll has been actively working to make Anglo American more responsive and flexible by eliminating layers of management.

Anglo American PLC, one of the world's largest diversified mining companies, recently announced that it was *delayering*—eliminating a layer of its organizational structure. Previously, the company had been organized into two global divisions—Coal and Ferrous Metals, each with its own CEO, both of whom reported directly to the CEO of Anglo American. Below the divisional level were Anglo's various global business operations, each dealing with a different commodity (e.g., coal, platinum, and iron ore) and each headed by its own CEO and functional support staff. The CEOs of these units reported directly to the CEO of his or her respective division.

As a result of "simplification and delayering," these businesses were reorganized into seven "commodity business units" (BUs), each of which is now "profit accountable"—that is, responsible for its own performance. The major criteria for this reorganization were geography and asset status. The platinum unit, for example, is headquartered in South Africa (which is also home to the parent company), the copper unit in Chile, and the metallurgical–coal unit in Australia.

Times have been hectic for Anglo. In February 2009, CEO Cynthia Carroll admitted that the organization, like many companies, was starting to feel the impact of the global recession. Her whirlwind campaign to cut costs by $450 million earned her the nickname "Cyclone Cynthia." Then the Swiss–British mining company Xstrata proposed a merger with Anglo. Carroll and the Anglo board quickly rejected Xstrata's offer as "totally unacceptable," and Carroll presented both Anglo's mid-year financial results and its argument for remaining independent. "Frankly," asserted Carroll,

> I know what it is that we need to do. … We have a strategy, we have clear goals, we have tremendous assets … in the most attractive commodities in the world. The opportunities are massive. … We're well aware of what Xstrata does, but I'm very confident of what we can do in the future.

Xstrata subsequently withdrew its offer in the face of resistance from the Anglo board. "Anglo," said a company spokesman, "can now move forward and run our business without further distraction." One analyst predicted that Anglo "will likely show a renewed sense of urgency … and pull out all the stops to win shareholders over," and exactly one week later, Carroll announced her "simplification and delayering" plan. In making the announcement, she asked shareholders for more time to develop the firm's assets and prove its value as an independent company. "The portfolio changes we have announced," she argued, "… will position Anglo American well for sustained, profitable growth in the commodities we have identified as being the most attractive."

References: Jeffrey Sparshott, "Miner Anglo to Sell Assets in Shake-Up," *Wall Street Journal*, October 22, 2009, http://www.dailytenders.co.za, accessed on November 13, 2013; Kate Holton et al., "Xstrata Seeks $68 Billion Merger with Anglo," *Reuters*, June 21, 2009, www.reuters.com, accessed on November 13, 2013; Julia Werdigier, "Xstrata Makes a New Move for Merger with Anglo," *New York Times*, June 25, 2009, www.nytimes.com, accessed on November 13, 2013; Martin Waller and David Robinson, "Business Big Shot: Cynthia Carroll of Anglo American," *The Times* (London) Online, August 1, 2009, www.thetimes.co.uk/tto/business, accessed on November 13, 2013; Andrew Cave, "Cynthia Carroll Digs Deep for Anglo," *Telegraph*, August 1, 2009, www.telegraph.co.uk, accessed on November 13, 2013; and Julia Werdigier, "Xstrata Ends Bid for Rival in London," *New York Times*, October 16, 2009, www.nytimes.com, accessed on November 13, 2013.

the subordinate a job to do. The assignment of responsibility might range from telling a subordinate to prepare a report to placing the person in charge of a task force. Along with the assignment, the individual is also given the authority to do the job. The manager may give the subordinate the power to requisition needed information from confidential files or to direct a group of other workers. Finally, the manager establishes the subordinate's accountability—that is, the subordinate accepts an obligation to carry out the task assigned by the manager. For instance, the CEO of AutoZone will sign off for the company on financial performance only when the individual manager responsible for each unit has certified his or her own results as being accurate. The firm believes that this high level of accountability will help it avoid the kind of accounting scandal that has hit many businesses in recent times.[19]

decentralization
The process of systematically delegating power and authority throughout the organization to middle- and lower-level managers

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

Decentralization and Centralization Just as authority can be delegated from one individual to another, organizations also develop patterns of authority across a wide variety of positions and departments. **Decentralization** is the process of systematically delegating power and authority throughout the organization to middle- and lower-level managers. It is important to remember that decentralization is actually one end of a continuum anchored at the other end by **centralization**, the process of systematically retaining power and authority in the hands of higher-level managers. Hence, a decentralized organization is one in which decision-making power and authority are delegated as far down the chain of command as possible. Conversely, in a centralized organization, decision-making power and authority are retained at higher levels in the organization.

What factors determine an organization's position on the decentralization–centralization continuum? One common determinant is the organization's external environment. Usually, the greater the complexity and uncertainty of the environment, the greater is the tendency to decentralize. Another crucial factor is the history of the organization. Firms have a tendency to do what they have done in the past, so there is likely to be some relationship between what an organization did in its early history and what it chooses to do today in terms of centralization or decentralization. The nature of the decisions being made is also considered. The costlier and riskier the decisions, the more pressure there is to centralize. In short, managers have no clear-cut guidelines for determining whether to centralize or decentralize. Many successful organizations, such as General Electric and Johnson & Johnson, are quite decentralized. Equally successful firms, such as McDonald's and Walmart, have remained centralized.

IBM has recently undergone a transformation from using a highly centralized approach to a much more decentralized approach to managing its operations. A great deal of decision-making authority was passed from the hands of a select group of top executives down to six product and marketing groups. The reason for the move was to speed up the company's ability to make decisions, introduce new products, and respond to customers. Similarly, Toyota recently announced its intent to provide more autonomy to country managers, especially those in the United States. This move came in part because of poor and slow decision making during a recent quality crisis involving Toyota products.[20]

In contrast, Royal Dutch Shell, long operated in a highly decentralized manner, has recently gone through several major changes all intended to make the firm more centralized. New CEO Peter Voser went so far as to note that "fewer people will make strategic decisions."[21] Yahoo! Inc. has also initiated a change to become more centralized.[22] The "At Your Service" feature provides an interesting example of how Best Buy created authority for its chief ethics officer.

AT YOUR SERVICE

A Panel of Your Peers

Kathleen Edmond is chief ethics officer at Best Buy, the world's largest consumer-electronics retailer. To help people better understand the role of ethics in a service business, Edmond posted the following exercise (which we've edited slightly) on her website at www.kathleenedmond.com:

> A Best Buy Supervisor (a department manager responsible for seeing that merchandising and pricing standards are met) told a direct-report employee to put an "open item" tag on an unused, undamaged product. The tag would indicate that the product might later be priced at a markdown. The Supervisor explained that he was thinking about buying the product but wasn't sure and instructed the employee to put the "open item" price tag beneath a regular price tag until he'd made up his mind. The Supervisor did not buy this particular item but did buy other products at markdowns of 55–65 percent. As it happens, the employee who had been told to place the "open item" price tag on the new product rang up these purchases.
>
> He reported that when another manager was called to the register to authorize the markdowns, he was assured by the Supervisor that the store's Product Process Manager (a higher-level manager responsible for merchandising, inventory, and loss prevention for the whole store) knew about the transaction. When questioned later about the purchases, the Supervisor confirmed that he'd spoken about them to the Product Process Manager. The Product Process Manager said that the Supervisor had indeed expressed an interest in buying some products but had provided no specifics about products or pricing.
>
> At the end of this summary, Edmond addressed the following questions to Best Buy employees:
>
> - What ethical missteps do you see in this story?
> - Which of the Supervisor's actions were most alarming to you and why?
> - Are there procedures in place that could prevent this from happening at your store?
>
> Following established procedure, Edmond referred the dispute, at the Supervisor's request, to a Peer Review panel, which examined statements from all employees involved as well as the company's policy on Inappropriate Conduct. After a decision had been reached by the panel, Edmond posted its Decision Summary:
>
> 1. The discount applied was not consistent with other pricing of open-box items.
> 2. The pricing of the Supervisor's purchases seemed to be based on the fact that the Supervisor was purchasing them rather than on the condition of the products themselves.
> 3. Management was not involved in these pricing decisions.
> 4. The instructions to the subordinate to hide a price were considered.

So, what do you think? Given the factors considered by the Peer Review panel, what action should the company have taken?

References: Ethics and Compliance Officer Association, "Kathleen Edmond, Chief Ethics Officer, Best Buy," Board of Directors, 2011, www.theecoa.org, accessed on November 13, 2013; Best Buy Inc., "Code of Business Ethics," 2008, www.bestbuy.com, accessed on November 13, 2013; and Kathleen Edmond, "Supervisor Takes Massive Discounts," Kathleen Edmond, Best Buy's Chief Ethics Officer, January 13, 2009, www.kathleenedmond.com, accessed on November 13, 2013.

(*Note:* In the real situation, a decision to terminate the supervisor was originally made by his superiors, and his request for a hearing before the Peer Review panel was made as an appeal to this decision. The decision to terminate was upheld.)

Coordinating Activities

The fifth major element of organizing is coordination. As we discussed earlier, job specialization and departmentalization involve breaking down jobs into small units and then combining those jobs into departments. Once this has been accomplished, the activities of the departments must be linked—systems must be put into place to keep the activities of each department focused on the attainment of organizational goals. This is accomplished by **coordination**—the process of linking the activities of the various departments of the organization.[23]

coordination
The process of linking the activities of the various departments of the organization

The Need for Coordination The primary reason for coordination is that departments and work groups are interdependent—they depend on one another for information and resources to perform their respective activities. The greater the interdependence between departments, the more coordination the organization requires if departments are to be able to perform effectively. The three major forms of interdependence are pooled, sequential, and reciprocal.[24]

pooled interdependence
When units operate with little interaction; their output is pooled at the organizational level

Pooled interdependence represents the lowest level of interdependence. Units with pooled interdependence operate with little interaction—the output of the units is pooled at the organizational level. Old Navy clothing stores operate with pooled interdependence. Each store is considered a "department" by the parent corporation. Each has its own operating budget, staff, and so forth. The profits or losses from each store are "added together" at the organizational level. The stores are interdependent to the extent that the final success or failure of one store affects the others, but they do not generally interact on a day-to-day basis.

sequential interdependence
When the output of one unit becomes the input for another in a sequential fashion

In **sequential interdependence**, the output of one unit becomes the input for another in a sequential fashion. This creates a moderate level of interdependence. At Nissan, for example, one plant assembles engines and then ships them to a final assembly site at another plant, where the cars are completed. The plants are interdependent in that the final assembly plant must have the engines from engine assembly before it can perform its primary function of producing finished automobiles. But the level of interdependence is generally one way—the engine plant is not necessarily dependent on the final assembly plant.

reciprocal interdependence
When activities flow both ways between units

Reciprocal interdependence exists when activities flow both ways between units. This form is clearly the most complex. Within a Marriott hotel, for example, the reservations department, front-desk check-in, and housekeeping are all reciprocally interdependent. Reservations has to provide front-desk employees with information about how many guests to expect each day, and housekeeping needs to know which rooms require priority cleaning. If any of the three units does not do its job properly, all the others will be affected.

Structural Coordination Techniques Because of the obvious coordination requirements that characterize most organizations, many techniques for achieving coordination have been developed. Some of the most useful devices for maintaining coordination among interdependent units are the managerial hierarchy, rules and procedures, liaison roles, task forces, and integrating departments.[25]

Organizations that use the hierarchy to achieve coordination place one manager in charge of interdependent departments or units. In Walmart distribution centers, major activities include receiving and unloading bulk shipments from railroad cars and loading other shipments onto trucks for distribution to retail outlets. The two groups (receiving and shipping) are interdependent in that they share the loading docks and some equipment. To ensure coordination and minimize conflict, one manager is in charge of the whole operation.

Routine coordination activities can be handled through rules and standard procedures. In the Walmart distribution center, an outgoing truck shipment has priority over an incoming rail shipment. Thus, when trucks are to be loaded, the shipping unit is given access to all of the center's auxiliary forklifts. This priority is specifically stated in a rule. But, as useful as rules and procedures often are in routine situations, they are not particularly effective when coordination problems are complex or unusual.

As a device for coordination, a manager in a liaison role coordinates interdependent units by acting as a common point of contact. This individual may not have any formal authority over the groups but instead simply facilitates the flow of information between units. Two engineering groups working on component systems for a large project might interact through a liaison. The liaison maintains familiarity with each group as well as with the overall project. She can answer questions and otherwise serve to integrate the activities of all the groups.

A task force may be created when the need for coordination is acute. When interdependence is complex and several units are involved, a single liaison person may not be sufficient. Instead, a task force might be assembled by drawing one representative from each group. The coordination function is thus spread across several individuals, each of whom has special information about one of the groups involved. When the project is completed, task force members return to their original positions. For example, a college overhauling its degree requirements might establish a task force made up of representatives from each department affected by the change. Each person not only retains his or her regular departmental affiliation and duties but also serves on the special task force. After the new requirements are agreed on, the task force is dissolved.

Integrating departments are occasionally used for coordination. These are somewhat similar to task forces but are more permanent. An integrating department generally has some permanent members as well as members who are assigned temporarily from units that are particularly in need of coordination. One study found that successful firms in the plastics industry, which is characterized by complex and dynamic environments, used integrating departments to maintain internal integration and coordination.[26] An integrating department usually has more authority than a task force and may even be given some budgetary control by the organization.

Electronic Coordination Advances in information technology are also providing useful mechanisms for coordination. E-mail, for example, makes it easier for people to communicate with one another. This communication, in turn, enhances coordination. Similarly, many people in organizations today use electronic scheduling, at least some of which is accessible to others. Hence, if someone needs to set up a meeting with two colleagues, he or she can often check their electronic schedules to determine their availability, making it easier to coordinate their activities.

Local networks, increasingly managed by handheld electronic devices, are also making it easier to coordinate activities. Bechtel, for example, now requires its contractors, subcontractors, and suppliers to use a common web-based communication system to improve coordination among their myriad activities. The firm estimates that this improved coordination technology routinely saves it thousands of dollars on every big construction project it undertakes.

THE BUREAUCRATIC MODEL OF ORGANIZATION DESIGN

bureaucracy
A model of organization design based on a legitimate and formal system of authority

Max Weber, an influential German sociologist, was a pioneer of classical organization theory. At the core of Weber's writings was the bureaucratic model of organizations.[27] The Weberian perspective suggests that a **bureaucracy** is a model of organization design based on a legitimate and formal system of authority. Many people associate bureaucracy with "red tape," rigidity, and passing the buck. For example, how many times have you heard people refer disparagingly to "the federal bureaucracy"? Many U.S. managers believe that bureaucracy in the Chinese government is a major impediment to U.S. firms' ability to do business there.

Weber viewed the bureaucratic form of organization as logical, rational, and efficient. He offered the model as a framework to which all organizations should aspire—the "one best way" of doing things. According to Weber, the ideal bureaucracy exhibits five basic characteristics:

1. The organization should adopt a distinct division of labor, and each position should be filled by an expert.
2. The organization should develop a consistent set of rules to ensure that task performance is uniform.
3. The organization should establish a hierarchy of positions or offices that creates a chain of command from the top of the organization to the bottom.
4. Managers should conduct business in an impersonal way and maintain an appropriate social distance between themselves and their subordinates.
5. Employment and advancement in the organization should be based on technical expertise, and employees should be protected from arbitrary dismissal.

Perhaps the best examples of bureaucracies today are government agencies and universities. Consider, for example, the steps you must go through and the forms you must fill out to apply for admission to college, request housing, register each semester, change majors, submit a degree plan, substitute a course, and file for graduation. Even when paper is replaced with electronic media, the steps are often the same. The reason these procedures are necessary is that universities deal with large numbers of people who must be treated equally and fairly. Hence, rules, regulations, and standard operating procedures are needed. Large labor unions are also usually organized as bureaucracies.[28]

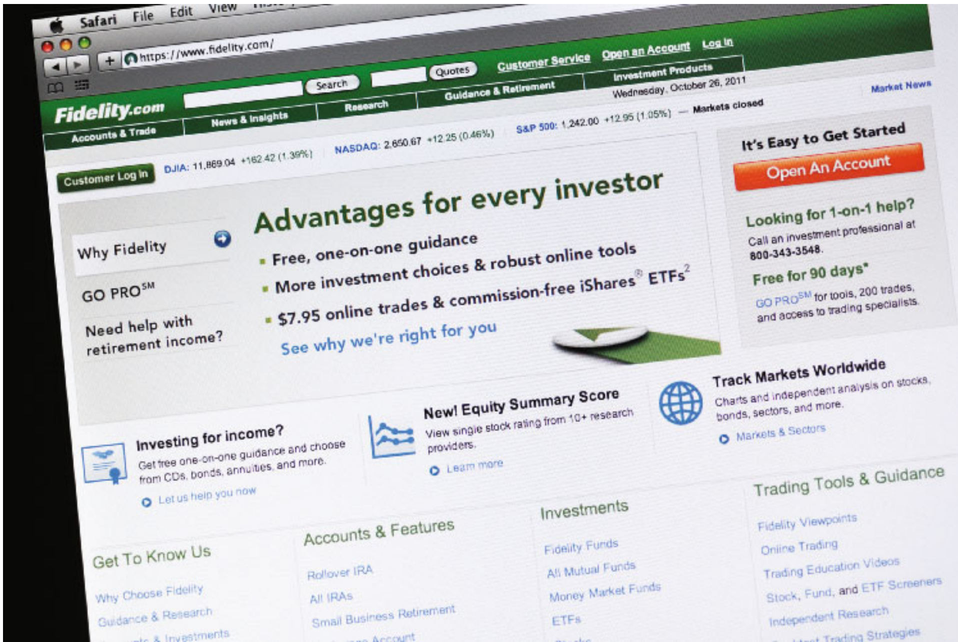
Some bureaucracies, such as the U.S. Postal Service, have been trying to portray themselves as less mechanistic and impersonal. The strategy of the Postal Service is to become more service oriented as a way to fight back against competitors such as FedEx and UPS.

A primary strength of the bureaucratic model is that several of its elements (such as reliance on rules and employment based on expertise) do, in fact, often improve efficiency. Bureaucracies also help prevent favoritism (because everyone must follow the rules) and make procedures and practices very clear to everyone. Unfortunately, however, this approach also has several disadvantages. One major disadvantage is that the bureaucratic model results in inflexibility and rigidity. Once rules are created and put in place, making exceptions or changing them is often difficult. In addition, the bureaucracy often results in the neglect of human and social processes within the organization.

situational view of organization design
Based on the assumption that the optimal design for any given organization depends on a set of relevant situational factors

SITUATIONAL INFLUENCES ON ORGANIZATION DESIGN

The **situational view of organization design** is based on the assumption that the optimal design for any given organization depends on a set of relevant situational factors. In other words, situational factors play a role in determining the best organization design for any particular circumstance.[29] Four basic situational factors—technology, environment, size, and organizational life cycle—are discussed here.



NetPhotos/Alamy

Fidelity Investments uses technology to transform investment dollars into growth and income for investors. This technology, in turn, plays a significant role in the kind of organization design that best serves Fidelity. Other firms that use different technologies, meanwhile, will likely use different forms of organization design.

Core Technology

technology
Conversion process used to transform inputs into outputs

Technology consists of the conversion processes used to transform inputs (such as materials or information) into outputs (such as products or services). Most organizations use multiple technologies, but an organization's most important one is called its core *technology*. Although most people visualize assembly lines and machinery when they think of technology, the term can also be applied to service organizations. For example, an investment firm like Fidelity uses technology to transform investment dollars into income in much the same way that Union Carbide uses natural resources to manufacture chemical products.

The link between technology and organization design was first recognized by Joan Woodward.[30] Woodward studied 100 manufacturing firms in southern England. She collected information about aspects such as the history of each organization, its manufacturing processes, its forms and procedures, and its financial performance. Woodward expected to find a relationship between the size of an organization and its design, but no such relationship emerged. As a result, she began to seek other explanations for differences. Close scrutiny of the firms in her sample led her to recognize a potential relationship between technology and organization design. This follow-up analysis led Woodward to first classify the organizations according to their technology. Three basic forms of technology were identified by Woodward:

1. *Unit or small-batch technology*. The product is custom-made to customer specifications or produced in small quantities. Organizations using this form of technology include a tailor shop specializing in custom suits, a printing shop that produces business cards and company stationery, and a photography studio.

2. *Large-batch or mass-production technology*. The product is manufactured in assembly-line fashion by combining component parts into another part or finished product. Examples include automobile manufacturers like Subaru, appliance makers like Whirlpool Corporation, and electronics firms like Philips.
3. *Continuous-process technology*. Raw materials are transformed to a finished product by a series of machine or process transformations. The composition of the materials themselves is changed. Examples include petroleum refineries like ExxonMobil and Shell, and chemical refineries like Dow Chemical and Hoechst AG.

These forms of technology are listed in order of their assumed levels of complexity. In other words, unit or small-batch technology is presumed to be the least complex and continuous-process technology the most complex. Woodward found that different configurations of organization design were associated with each technology.

Specifically, Woodward found that the two extremes (unit or small-batch and continuous-process) tended to have very little bureaucracy, whereas the middle-range organizations (large-batch or mass-production) were much more bureaucratic. The large-batch and mass-production organizations also had a higher level of specialization.[31] Finally, she found that organizational success was related to the extent to which organizations followed the typical pattern. For example, successful continuous-process organizations tended to have less bureaucracy, whereas less successful firms with the same technology tended to be more bureaucratic.

Environment

Environmental elements and organization design are specifically linked in a number of ways.[32] The first widely recognized analysis of environment–organization design linkages was provided by Tom Burns and G. M. Stalker.[33] Like Woodward, Burns and Stalker worked in England. Their first step was identifying two extreme forms of organizational environment: stable (one that remains relatively constant over time) and unstable (subject to uncertainty and rapid change). Next, they studied the designs of organizations in each type of environment. It was no surprise that they found that organizations in stable environments tended to have a different kind of design than organizations in unstable environments. The two kinds of design that emerged were called mechanistic and organic organization.

mechanistic organization
Similar to the bureaucratic model, most frequently found in stable environments

organic organization
Very flexible and informal model of organization design, most often found in unstable and unpredictable environments

A **mechanistic organization**, quite similar to the bureaucratic model, was most frequently found in stable environments. Free from uncertainty, organizations structured their activities in rather predictable ways by means of rules, specialized jobs, and centralized authority. Mechanistic organizations are also quite similar to bureaucracies. Although no environment is completely stable, Abercrombie & Fitch and Wendy's use mechanistic designs. Each A&F store, for example, has prescribed methods for store design and merchandise-ordering processes. Little or no deviation is allowed from these methods. An **organic organization**, on the other hand, was most often found in unstable and unpredictable environments, in which constant change and uncertainty usually dictate a much higher level of fluidity and flexibility. Motorola (facing rapid technological change) and Apple (facing both technological change and constant change in consumer tastes) both use organic designs. A manager at Motorola, for example, has considerable discretion over how work is performed and how problems can be solved.

These ideas were extended in the United States by Paul R. Lawrence and Jay W. Lorsch.[34] They agreed that environmental factors influence organization design but believed that this influence varies between different units of the same organization. In fact, they predicted that each organizational unit has a unique environment and responds by developing unique attributes. Lawrence and Lorsch suggested that organizations could be characterized along two primary dimensions.

differentiation
Extent to which the organization is broken down into subunits

integration
Degree to which the various subunits must work together in a coordinated fashion

organizational size
Total number of full-time or full-time–equivalent employees

organizational life cycle
Progression through which organizations evolve as they grow and mature

One of these dimensions, **differentiation**, is the extent to which the organization is broken down into subunits. A firm with many subunits is highly differentiated; one with few subunits has a low level of differentiation. The second dimension, **integration**, is the degree to which the various subunits must work together in a coordinated fashion. For example, if each unit competes in a different market and has its own production facilities, they may need little integration. Lawrence and Lorsch reasoned that the degree of differentiation and integration needed by an organization depends on the stability of the environments that its subunits face.

Organizational Size and Life Cycle

The size and life cycle of an organization may also affect its design.[35] Although several definitions of size exist, we define **organizational size** as the total number of full-time or full-time–equivalent employees. A team of researchers at the University of Aston in Birmingham, England, believed that Woodward had failed to find a size–structure relationship (which was her original expectation) because almost all the organizations she studied were relatively small (three-fourths had fewer than 500 employees).[36] Thus, they decided to undertake a study of a wider array of organizations to determine how size and technology both individually and jointly affect an organization's design.

Their primary finding was that technology did in fact influence structural variables in small firms, probably because all their activities tend to be centered on their core technologies. In large firms, however, the strong technology–design link broke down, most likely because technology is not as central to ongoing activities in large organizations. The Aston studies yielded a number of basic generalizations: When compared to small organizations, large organizations tend to be characterized by higher levels of job specialization, more standard operating procedures, more rules, more regulations, and a greater degree of decentralization. Walmart is a good case in point. The firm expects to continue its dramatic growth for the foreseeable future, adding several thousand new jobs in the next few years. But, as it grows, the firm acknowledges that it will have to become more decentralized for its first-line managers to stay in tune with their customers.[37] Of course, size is not constant. As we noted in Chapter 5, for example, some small businesses are formed but soon disappear. Others remain as small, independently operated enterprises as long as their owner-manager lives. A few, such as Dell Computer, JetBlue, and Starbucks, skyrocket to become organizational giants. And occasionally, large organizations reduce their size through layoffs or divestitures. Marathon Oil, for instance, recently announced that it would be spinning off its downstream business, creating two independent businesses and significantly reducing the size of its business.[38] Consequently, Marathon is becoming a much smaller organization.

Although no clear pattern explains changes in size, many organizations progress through a four-stage **organizational life cycle**.[39] The first stage is the birth of the organization. The second stage, youth, is characterized by growth and the expansion of organizational resources. Midlife is a period of gradual growth evolving eventually into stability. Finally, maturity is a period of stability, perhaps eventually evolving into decline. Firms like Netflix and Starbucks, for instance, are still in their youth stage; Halliburton and Chevron are in midlife; and Ford and Boeing are in maturity. (A key challenge for managers, of course, is to avoid allowing a mature organization to begin to decline. Hence, they must be alert for opportunities to reenergize the organization with new products and new markets.)

Managers must confront a number of organization design issues as the organization progresses through these stages. In general, as an organization passes from one stage to the next, it becomes bigger, more mechanistic, and more decentralized. It also becomes more specialized, devotes more attention to planning, and takes on an increasingly large staff component. Finally, coordination demands increase, formalization increases, organizational units become geographically more dispersed, and control systems become more extensive. Thus, an organization's size and design are clearly linked, and this link is dynamic because of the organizational life cycle.[40]

BASIC FORMS OF ORGANIZATION DESIGN

Because technology, environment, size, and life cycle can all influence organization design, it should come as no surprise that organizations adopt many different kinds of designs. Most designs, however, fall into one of four basic categories. Others are hybrids based on two or more of the basic forms.

Functional (U-Form) Design

functional design
Based on the functional approach to departmentalization

The **functional design** is an arrangement based on the functional approach to departmentalization. This design has been termed the *U-form* (for unitary) approach.[41] Under the U-form arrangement, the members and units in the organization are grouped into functional departments such as marketing and production.

For the organization to operate efficiently in this design, there must be considerable coordination across departments. This integration and coordination are most commonly the responsibility of the CEO and members of senior management. Figure 6.2 shows the U-form design applied to the corporate level of a small manufacturing company. In a U-form organization, none of the functional areas can survive without the others. Marketing, for example, needs products from operations to sell and funds from finance

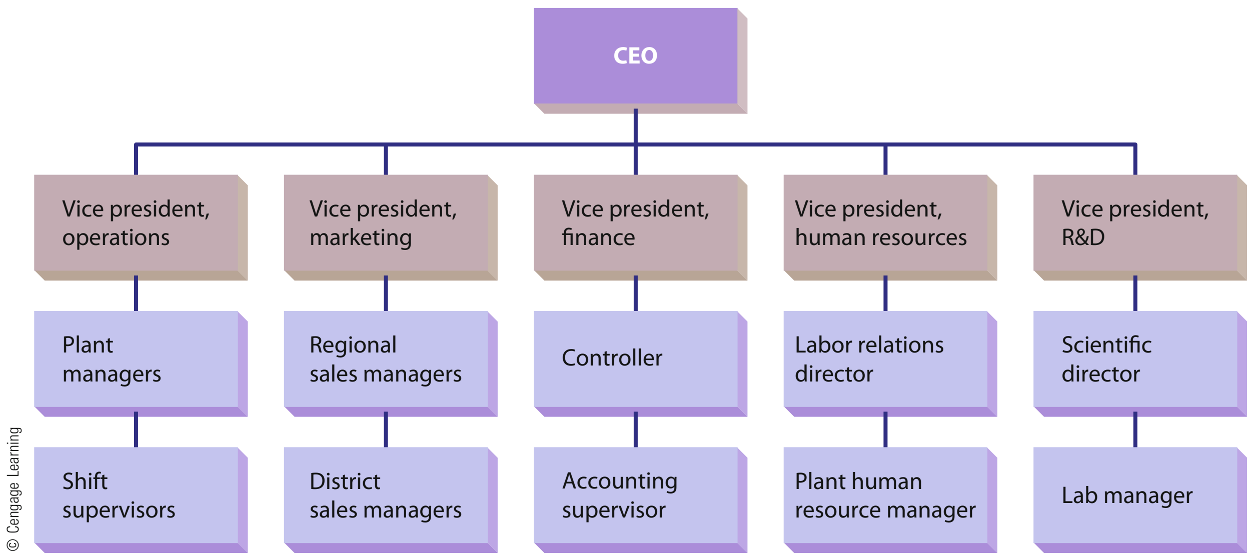


FIGURE 6.2

Functional (U-Form) Design for a Small Manufacturing Company

The U-form design is based on functional departmentalization. This small manufacturing firm uses managers at the vice presidential level to coordinate activities within each functional area of the organization. Note that each functional area is dependent on the others.

to pay for advertising. The WD-40 Company, which makes a popular lubricating oil, and the McIlhenny Company, which makes tabasco sauce, are both examples of firms that use the U-form design.

In general, this approach shares the basic advantages and disadvantages of functional departmentalization. Thus, it allows the organization to staff all important positions with functional experts, and it facilitates coordination and integration. On the other hand, it also promotes a functional, rather than an organizational, focus and tends to promote centralization. Functionally based designs are most commonly used in small organizations because an individual CEO can easily oversee and coordinate the entire organization. As an organization grows, the CEO finds staying on top of all functional areas increasingly difficult.

Conglomerate (H-Form) Design

conglomerate design
Used by an organization made up of a set of unrelated businesses

Another common form of organization design is the conglomerate, or *H-form* (for holding, as in holding company), approach.[42] The **conglomerate design** is used by an organization made up of a set of unrelated businesses. Thus, the H-form design is essentially a holding company that results from unrelated diversification.

This approach is based loosely on the product form of departmentalization. Each business or set of businesses is operated by a general manager who is responsible for its profits or losses, and each general manager functions independently of the others. Samsung Electronics Company, a South Korean firm, uses the H-form design. As illustrated in Figure 6.3, Samsung consists of four basic business groups. Other firms that use the H-form design include General Electric (aircraft engines, appliances, medical equipment, financial services, lighting products, plastics, and other unrelated businesses) and Tenneco (pipelines, auto parts, financial services, and other unrelated businesses). Honeywell has also recently adopted the H-form design.[43]

In an H-form organization, a corporate staff usually evaluates the performance of each business, allocates corporate resources across companies, and shapes decisions about buying and selling businesses. The basic shortcoming of the H-form design is the complexity associated with holding diverse and unrelated businesses. Managers usually find it difficult to compare and integrate activities across a large number of diverse operations. Research suggests that many organizations following this approach achieve only average-to-weak financial performance.[44] Thus, although some U.S. firms are still using the H-form design, many have abandoned it for other approaches.

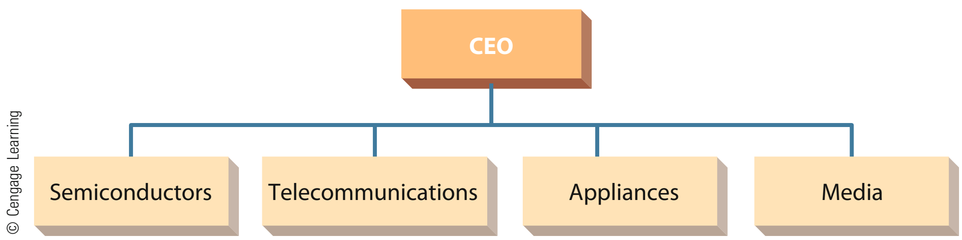


FIGURE 6.3

Conglomerate (H-Form) Design at Samsung

Samsung Electronics Company, a South Korean firm, uses the conglomerate form of organization design. This design, which results from a strategy of unrelated diversification, is a complex one to manage. Managers find that comparing and integrating activities among the dissimilar operations are difficult. Companies may abandon this design for another approach, such as the M-form design.

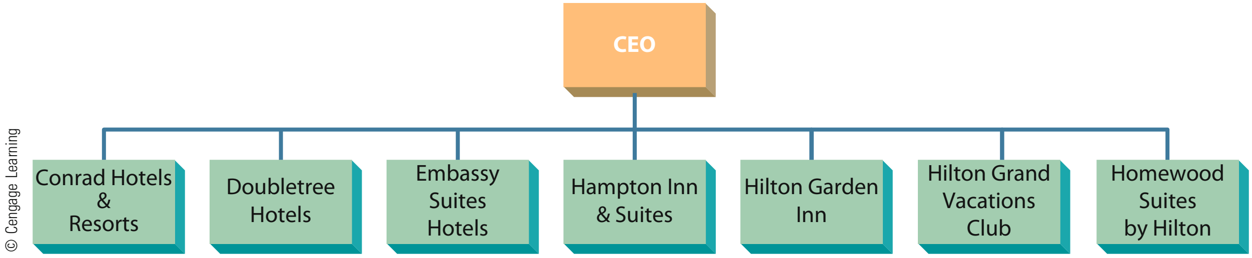


FIGURE 6.4

Multidivisional (M-Form) Design at Hilton Hotels

Hilton Hotels uses the multidivisional approach to organization design. Although each unit operates with relative autonomy, all units function in the same general market. This design resulted from a strategy of related diversification. Other firms that use M-form designs include PepsiCo and the Walt Disney Company.

Divisional (M-Form) Design

divisional design
Based on multiple businesses in related areas operating within a larger organizational framework

In the **divisional design**, which is becoming increasingly popular, a product form of organization is also used; in contrast to the H-form approach, however, the divisions are related. Thus the divisional design, or *M-form* (for multidivisional) approach, is based on multiple businesses in related areas operating within a larger organizational framework. This design results from a strategy of related diversification.

Some activities are extremely decentralized down to the divisional level; others are centralized at the corporate level.[45] For example, as shown in Figure 6.4, Hilton Hotels uses this approach. Each of its divisions is headed by a president or executive vice president and operates with reasonable autonomy, but the divisions also coordinate their activities as is appropriate. Other firms that use this approach are the Walt Disney Company (theme parks, movies, and merchandising units, all interrelated) and Hewlett-Packard (computers, printers, scanners, electronic medical equipment, and other electronic instrumentation).

The opportunities for coordination and shared resources represent one of the biggest advantages of the M-form design. Hilton's market research and purchasing departments are centralized. Thus, a site selector can visit a city and look for possible locations for different Hilton brands, and a buyer can purchase bed linens for multiple Hilton brands from the same supplier. The M-form design's basic objective is to optimize internal competition and cooperation. Healthy competition for resources among divisions can enhance effectiveness, but cooperation should also be promoted. Research suggests that the M-form organization that can achieve and maintain this balance will outperform large U-form and all H-form organizations.[46]

Matrix Design

matrix design
Based on two overlapping bases of departmentalization

The **matrix design**, another common approach to organization design, is based on two overlapping bases of departmentalization.[47] The foundation of a matrix is a set of functional departments. A set of product groups, or temporary departments, is then superimposed across the functional departments. Employees in a matrix are simultaneously members of a functional department (such as engineering) and of a project team.

Figure 6.5 shows a basic matrix design. At the top of the organization are functional units headed by vice presidents of engineering, production, finance, and marketing. Each of these managers has several subordinates. Along the side of the organization are a number of positions called *project manager*. Each project manager heads a project

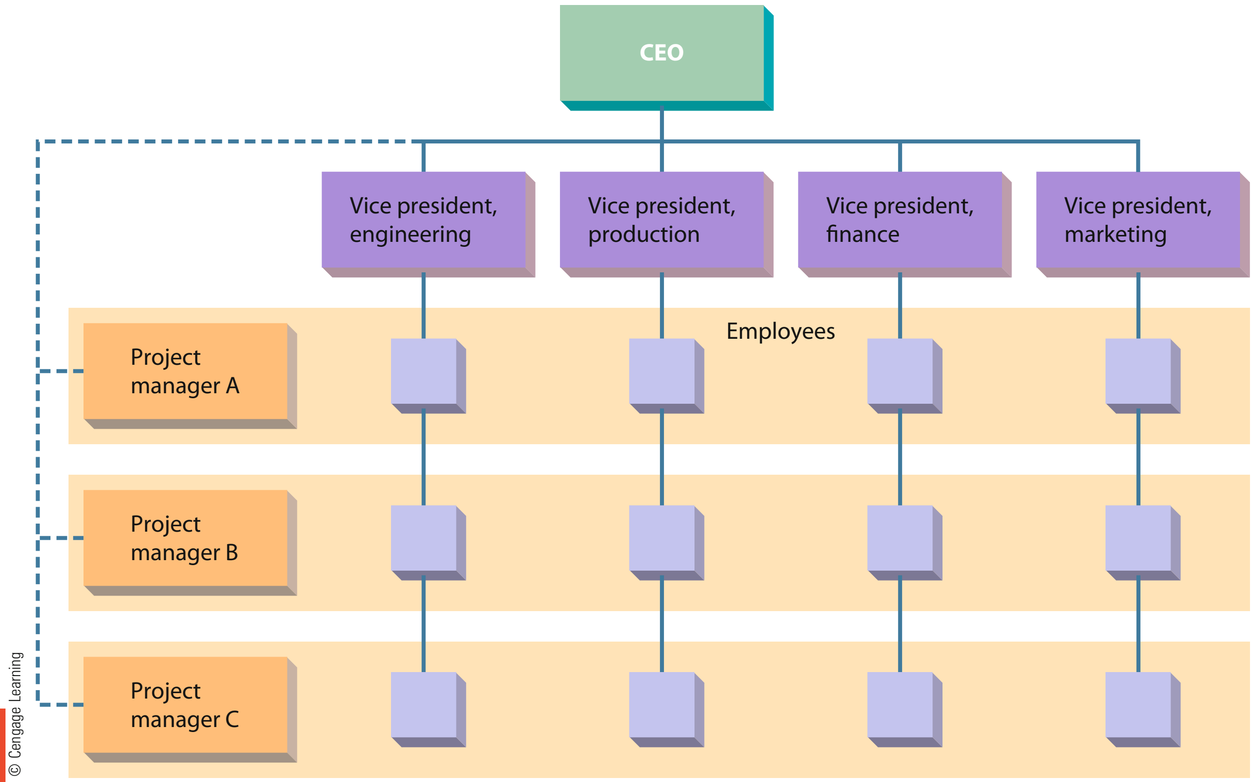


FIGURE 6.5

A Matrix Organization

A matrix organization design is created by superimposing a product form of departmentalization on an existing functional organization. Project managers coordinate teams of employees drawn from different functional departments. Thus, a matrix relies on a multiple-command structure.

group composed of representatives or workers from the functional departments. Note from the figure that a matrix reflects a *multiple-command structure*—any given individual reports to both a functional superior and one or more project managers.

The project groups, or teams, are assigned to designated projects or programs. For example, the company might be developing a new product. Representatives are chosen from each functional area to work as a team on the new product. They also retain membership in the original functional group. At any given time, a person may be a member of several teams as well as a member of a functional group. Ford used this approach in creating its popular Focus automobile. It formed a group called *Team Focus* made up of designers, engineers, production specialists, marketing specialists, and other experts from different areas of the company. This group facilitated getting a very successful product to the market at least a year earlier than would have been possible using Ford's previous approaches.

Martha Stewart also uses a matrix organization for her lifestyle business. The company was first organized broadly into media and merchandising groups, each of which has specific products and product groups. Layered on top of this structure are teams of lifestyle experts organized into groups such as cooking, crafts, and weddings. Each of these groups is targeted toward specific customer needs, but they work as necessary across all of the product groups. For example, a wedding expert might contribute to an article on wedding planning for a *Martha Stewart Living* magazine, contribute a story idea for a cable TV program, and supply content for a Martha Stewart website. This same individual might also help select fabrics suitable for wedding gowns for retailing.[48]

The matrix form of organization design is most often used in one of three situations.[49] First, a matrix may work when there is strong pressure from the environment. For example, intense external competition may dictate the sort of strong marketing thrust that is best spearheaded by a functional department, but the diversity of a company's products may argue for product departments. Second, a matrix may be appropriate when large amounts of information need to be processed. For example, creating lateral relationships by means of a matrix is one effective way to increase the organization's capacity for processing information. Third, the matrix design may work when there is pressure for shared resources. For example, a company with ten product departments may have resources for only three marketing specialists. A matrix design would allow all the departments to share the company's scarce marketing resources.

Both advantages and disadvantages are associated with the matrix design. Researchers have observed six primary advantages of matrix designs. First, they enhance flexibility because teams can be created, redefined, and dissolved as needed. Second, because they assume a major role in decision making, team members are likely to be highly motivated and committed to the organization. Third, employees in a matrix organization have considerable opportunity to learn new skills. Fourth, the matrix design provides an efficient way for the organization to take full advantage of its human resources. Fifth, team members retain membership in their functional unit so that they can serve as a bridge between the functional unit and the team, enhancing cooperation. Sixth, the matrix design gives top management a useful vehicle for decentralization. Once the day-to-day operations have been delegated, top management can devote more attention to areas such as long-range planning.

On the other hand, the matrix design also has some major disadvantages. Employees may be uncertain about reporting relationships, especially if they are simultaneously assigned to a functional manager and to several project managers. To complicate matters, some managers see the matrix as a form of anarchy in which they have unlimited freedom. Another set of problems is associated with the dynamics of group behavior. Groups take longer than individuals to make decisions, may be dominated by one individual, and may compromise too much. They may also get bogged down in discussion and not focus on their primary objectives. Finally, in a matrix, more time may also be required for coordinating task-related activities.[50]

Hybrid Designs

Some organizations use a design that represents a hybrid of two or more of the common forms of organization design.[51] For example, an organization may have five related divisions and one unrelated division, making its design a cross between an M form and an H form. Indeed, few companies use a design in its pure form; most firms have one basic organization design as a foundation for managing the business but maintain sufficient flexibility so that temporary or permanent modifications can be made for strategic purposes. Ford, for example, used the matrix approach to design the Focus and the newest Mustang, but the company is basically a U-form organization showing signs of moving to an M-form design. As we noted earlier, any combination of factors may dictate the appropriate form of design for any particular company.

EMERGING ISSUES IN ORGANIZATION DESIGN

In today's complex and ever-changing environment, it should come as no surprise that managers continue to explore and experiment with new forms of organization design. Many organizations are creating designs for themselves that maximize their ability to adapt to changing circumstances and to a changing environment. They try to accomplish this by not becoming too compartmentalized or too rigid. As we noted earlier, bureaucratic organizations are hard to change, slow, and inflexible. To avoid these problems, then, organizations can try to be as different from bureaucracies as possible—relatively few rules, general job descriptions, and so forth. This final section highlights some of the most important emerging issues.[52]

The Team Organization

team organization An approach to organization design that relies almost exclusively on project-type teams, with little or no underlying hierarchy

Some organizations today are using the **team organization**, an approach to organization design that relies almost exclusively on project-type teams, with little or no underlying functional hierarchy. Within such an organization, people float from project to project as necessitated by their skills and the demands of those projects. At Cypress Semiconductor, T. J. Rodgers refuses to allow the organization to grow so large that it cannot function this way. Whenever a unit or group starts getting too large, he simply splits it into smaller units. Consequently, all units within the organization are small. This allows them to change direction, explore new ideas, and try new methods without dealing with a rigid bureaucratic organizational context. Although few organizations have actually reached this level of adaptability, Apple Computer and Xerox are among those moving toward it.[53]

The Virtual Organization

virtual organization One that has little or no formal structure

Closely related to the team organization is the **virtual organization** that has little or no formal structure. Such an organization typically has only a handful of permanent employees and a very small staff and administrative headquarters facility. As the needs of the organization change, its managers bring in temporary workers, lease facilities, and outsource basic support services to meet the demands of each unique situation. As the situation changes, the temporary workforce changes in parallel, with some people leaving the organization and others entering. Facilities and the services subcontracted to others change as well. Thus, the organization exists only in response to its needs. And, increasingly, virtual organizations are conducting most—if not all—of their businesses online.[54]

For example, TLG Research Inc. was founded as a virtual organization focused on marketing research for automotive, aviation, marine, and industrial markets for original equipment and replacement parts. Currently, the company consists of an in-house project management staff of ten people and a virtual network of industry professionals. It also has a global business and research sources in Europe, Latin America, and Asia–Pacific to which it refers for consulting and research services as needed.

The Learning Organization

learning organization One that works to facilitate the lifelong learning and personal development of all its employees while continually transforming itself to respond to changing demands and needs

Another recent approach to organization design is the so-called learning organization. Organizations that adopt this approach work to integrate continuous improvement with continuous employee learning and development. Specifically, a **learning organization** is one that works to facilitate the lifelong learning and personal development of all its employees while continually transforming itself to respond to changing demands and needs.[55]

Although managers might approach the concept of a learning organization from a variety of perspectives, improved quality, continuous improvement, and performance measurement are frequent goals. The idea is that the most consistent and logical strategy for achieving continuous improvement is by constantly upgrading employee talent, skill, and knowledge. For example, if each employee in an organization learns one new thing each day and can translate that knowledge into work-related practice, continuous improvement will logically follow. Indeed, organizations that wholeheartedly embrace this approach believe that only through constant learning by employees can continuous improvement really occur.[56]

In recent years, many different organizations have implemented this approach. For example, Shell Oil purchased an executive conference center north of its headquarters in Houston. The center boasts state-of-the-art classrooms and instructional technology, lodging facilities, a restaurant, and recreational amenities such as a golf course, a swimming pool, and tennis courts. Line managers at the firm rotate through the Shell Learning Center, as the facility has been renamed, and serve as teaching faculty. Such teaching assignments last anywhere from a few days to several months. At the same time, all Shell employees routinely attend training programs, seminars, and related activities, all the while learning the latest information they need to contribute more effectively to the firm. Recent seminar topics have ranged from time management, to the implications of the Americans with Disabilities Act, to balancing work and family demands, to international trade theory. The idea is that by continuously immersing people in shared learning experiences, the firm will promote an organic design populated by people with common knowledge, goals, and expectations.

SUMMARY OF LEARNING OUTCOMES AND KEY POINTS

1. Identify the basic elements of organizations.
- Organizations are made up of a series of elements:
  - designing jobs
  - grouping jobs
  - establishing reporting relationships
  - distributing authority
  - coordinating activities
  - differentiating between positions

2. Describe the bureaucratic perspective on organization design.
- The bureaucratic model attempted to prescribe how all organizations should be designed.
- It is based on the presumed need for legitimate, logical, and formal rules, regulations, and procedures.

3. Identify and explain key situational influences on organization design.
- The situational view of organization design is based on the assumption that the optimal organization design is a function of situational factors.
- Four important situational factors are the following:
  - technology
  - environment
  - size
  - organizational life cycle

4. Describe the basic forms of organization design that characterize many organizations.
- Many organizations today adopt one of four basic organization designs:
  - functional (U form)
  - conglomerate (H form)
  - divisional (M form)
  - matrix
- Other organizations use a hybrid design derived from two or more of these basic designs.

5. Identify and describe emerging issues in organization design.
- Three emerging issues in organization design are the following:
  - team organization
  - virtual organization
  - learning organization

DISCUSSION QUESTIONS

Questions for Review

1. What is job specialization? What are its advantages and disadvantages?
2. What is departmentalization? What are its most common forms?
3. Distinguish between centralization and decentralization, and comment on their relative advantages and disadvantages.
4. Describe the basic forms of organization design. What are the advantages and disadvantages of each?
5. Compare and contrast the matrix organization and the team organization, citing their similarities and differences.

Questions for Analysis

1. How is specialization applied in settings such as a hospital, restaurant, and church?
2. Learn how your school or business is organized. Analyze the advantages and disadvantages of this form of departmentalization, and then comment on how well or how poorly other forms of organization might work.
3. Identify five ways in which electronic coordination affects your daily life.
4. Each of the organization designs is appropriate for some firms but not for others. Describe the characteristics that a firm using the U form should have. Then do the same for the H form, the M form, and the matrix design. For each item, explain the relationship between that set of characteristics and the choice of organization design.
5. What are the benefits of using the learning organization approach to design? Now consider that, to learn, organizations must be willing to tolerate many mistakes because it is only through the effort of understanding mistakes that learning can occur. With this statement in mind, what are some of the potential problems with the use of the learning organization approach?

BUILDING EFFECTIVE CONCEPTUAL SKILLS

Exercise Overview

Conceptual skills require you to think in the abstract. In this exercise, you'll use your conceptual skills in analyzing organizational structure.

Exercise Background

Looking at its organization chart allows you to understand a company's structure, including its distribution of authority, its divisional breakdown, its levels of hierarchy, and its reporting relationships. The reverse is also true: When you understand the elements of a company's structure, you can draw up an organization chart to reflect it. In this exercise, that's just what you'll do: You'll use the Internet to research a firm's structure and then draw an appropriate organization chart.

Exercise Task

1. Alone or with a partner, go online to research a publicly traded U.S. firm in which you're interested. Focus on information that will help you understand the company's structure. If you research Ford Motor Company, for example, you should look for information about different types of vehicles, different regions in which Ford products are sold, and different functions that the company performs. (*Hint*: The firm's annual report is usually available online and typically contains a great deal of helpful information. In particular, take a look at the section containing an editorial message from the chairman or CEO and the section summarizing financial information. In many cases, "segment" data reveal a lot about divisional structure.)
2. Draw an organization chart based on your research.
3. Share your results with another group or with the class as a whole. Be prepared to explain and justify the decisions that you made in determining the firm's structure.

BUILDING EFFECTIVE DIAGNOSTIC SKILLS

Exercise Overview

Diagnostic skills enable a manager to visualize the most appropriate response to a situation. In this exercise, you're asked to apply your diagnostic skills to the question of centralization versus decentralization in an organization.

Exercise Background

Managers often find it necessary to change an organization's degree of centralization or decentralization. Begin this exercise by reflecting on two very different scenarios in which this issue has arisen:

Scenario A. You're the top manager in a large organization with a long and successful history of centralized operations. For valid reasons beyond the scope of this exercise, however, you've decided to make the firm much more decentralized.

Scenario B. Assume the exact opposite of the situation in Scenario A: You still occupy the top spot in your firm, but this time you're going to centralize operations in an organization that's always been decentralized.

Exercise Task

Now do the following:

1. For Scenario A, list the major barriers to decentralization that you foresee.
2. For Scenario B, list the major barriers to centralization that you foresee.
3. In your opinion, which scenario would be easier to implement in reality? In other words, is it probably easier to move from centralization to decentralization or vice versa? Whatever your opinion in the matter, be ready to explain it.
4. Given a choice of starting your career in a firm that's either highly centralized or highly decentralized, which would you prefer? Why?

SKILLS SELF-ASSESSMENT INSTRUMENT

Delegation Aptitude Survey

Purpose: Help students gain insight into the process of and the attitudes important to delegation.

Introduction: Delegation has a number of advantages for managers, workers, and organizations, but it also presents challenges. Managers who understand the benefits of delegation, who trust their subordinates, and who have the emotional maturity to allow others to succeed are more likely to be effective delegators.

Instructions:

1. Complete the following Delegation Aptitude Survey. You should think of work-related or group situations in which you have had the opportunity to delegate responsibility to others. If you have not had such experiences, try to imagine how you would respond in such a situation. Circle the response that best typifies your attitude or behavior.
2. Score the survey according to the directions that follow. Calculate your overall score.
3. Working with a small group, compare individual scores and prepare group responses to the discussion questions.
4. Calculate a class-average score. Have one member of the group present the group's responses to the discussion questions.

Delegation Aptitude Survey

Statement	Strongly Agree	Slightly Agree	Not Sure	Slightly Disagree	Strongly Disagree
1. I don't think others can do the work as well as I can.	1	2	3	4	5
2. I often take work home with me.	1	2	3	4	5
3. Employees who can make their own decisions tend to be more efficient.	5	4	3	2	1
4. I often have to rush to meet deadlines.	1	2	3	4	5

(continued)

Statement	Strongly Agree	Slightly Agree	Not Sure	Slightly Disagree	Strongly Disagree
5. Employees with more responsibility tend to have more commitment to group goals.	5	4	3	2	1
6. When I delegate, I always explain precisely how the task is to be done.	1	2	3	4	5
7. I always seem to have too much to do and too little time to do it in.	1	2	3	4	5
8. When employees have the responsibility to do a job, they usually do it well.	5	4	3	2	1
9. When I delegate, I make clear the end results I expect.	5	4	3	2	1
10. I usually only delegate simple, routine tasks.	1	2	3	4	5
11. When I delegate, I always make sure everyone concerned is so informed.	5	4	3	2	1
12. If I delegate, I usually wind up doing the job over again to get it right.	1	2	3	4	5
13. I become irritated watching others doing a job I can do better.	1	2	3	4	5
14. When I delegate, I feel I am losing the control I need.	1	2	3	4	5
15. When I delegate, I always set specific dates for progress reports.	5	4	3	2	1
16. When I do a job, I do it to perfection.	1	2	3	4	5
17. I honestly feel that I can do most jobs better than my subordinates can.	1	2	3	4	5
18. When employees make their own decisions, it tends to cause confusion.	1	2	3	4	5
19. It's difficult for subordinates to make decisions because they don't know the organization's goals.	1	2	3	4	5
20. When employees are given responsibility, they usually do what is asked of them.	5	4	3	2	1

Discussion Questions

1. In what respects do the survey responses agree or disagree?
2. What might account for some of the differences in individual scores?
3. How can you make constructive use of the survey results?

Source: From GRIFFIN, *Exercises for Griffin's Management*, 8E. © 2005 Cengage Learning.

EXPERIENTIAL EXERCISE

Purpose: *Organization design* refers to the overall set of elements used to configure an organization. The purpose of this exercise is to give you insights into how managers must make decisions within the context of creating an organization design.

Introduction: Whenever a new enterprise is started, the owner must make decisions about how to structure the organization. For example, he or she must decide what functions are required, how those functions will be broken down into individual jobs, how those jobs will be grouped back together into logical departments, and how authority and responsibility will be allocated across positions.

Instructions: Assume that you have decided to open a handmade chocolate business in your local community. Your products will be traditional bars and novelty-shaped chocolates, truffles, other chocolate products such as ice cream, and gift baskets and boxes featuring chocolates. You have hired a talented chef and believe that her expertise, coupled with your unique designs and high-quality ingredients, will make your products very popular. You have also inherited enough money to get your business up and running and to cover about one year of living expenses (in other words, you do not need to pay yourself a salary).

You intend to buy food items, including chocolate, cocoa, white chocolate, nuts, and fruit, from suppliers who deliver to your area. Your chef will then turn those ingredients into luscious products that will then be attractively packaged. Local grocery store owners and restaurant chefs have seen samples of your products and indicated a keen interest in selling them. You know, however, that you will still need to service accounts and keep your customers happy. At the present time, you are trying to determine how many people you need to get your business going and how to group them most effectively into an organization. You realize that you can start out quite small and then expand as sales warrant. However, you also worry that if you are continually adding people and rearranging your organization, confusion and inefficiency may result.

Under each of the following scenarios, decide how best to design your organization. Sketch a basic organization chart to show your thoughts.

- *Scenario 1*. You will design and sell the products yourself, as well as oversee production. You will start with a workforce of five people.
- *Scenario 2*. You intend to devote all of your time to sales to increase revenues, leaving all other functions to others. You will start with a workforce of nine people.
- *Scenario 3*. You do not intend to handle any one function yourself but will instead oversee the entire operation and will start with a workforce of 15 people.

1. After you have created your organization chart, form small groups of four to five people each. Compare your various organization charts, focusing on similarities and differences.
2. Working in the same group, assume that five years have passed and that your business has been a big success. You have a large factory for making your chocolates and are shipping them to 15 states. You employ almost 500 people. Create an organization design that you think fits this organization best.

Discussion Questions

1. How clear (or how ambiguous) were the decisions about organization design?
2. What are your thoughts about starting out too large to maintain stability, as opposed to starting small and then growing?
3. What basic factors did you consider in choosing a design?

MANAGEMENT AT WORK

The Alliance Maze

Let's say you're a businessperson in New York who needs to fly to Hong Kong. Logging on to Orbitz, you find that American Airlines (AMR) offers a nonstop round-trip flight for $2,692. Because Orbitz recommends that you "Act Fast! Only 1 ticket left at this price!" you buy your ticket online. On your departure date, you arrive at the American Airlines ticket desk, only to be referred to the Cathay Pacific Airways counter. Your flight, the ticket agent informs you, is actually operated by Cathay, and she points to the four-digit "codeshare number" on your ticket. Bewildered but hoping that you're still booked on a flight to Hong Kong, you hustle to the Cathay counter, where your ticket is in fact processed. Settled into your seat a few hours later, you decide to get on your laptop to see if you can figure out why you are and aren't on the flight that you booked. Going back to Orbitz, you find that, like American, Cathay does indeed offer a nonstop round-trip flight to and from its home city of Hong Kong—for $1,738. It dawns on you that if you'd bought your ticket directly from Cathay, you'd be sitting in the same seat on the same airplane for almost $1,000 less.

If this scenario sounds confusing, that's because it is, even to veteran flyers. What's confusing about it is the practice of *code sharing*, which works like this: You buy a ticket from Airline A for a flight operated by Airline B on a route that Airline A doesn't otherwise serve. This practice is possible if both airlines, like AMR and Cathay, belong to the same *airline alliance* (in this case, Oneworld).

On the surface, the advantages to the airlines may seem mostly a matter of perception: An airline *seems* to be serving certain markets that it doesn't actually serve and flying certain routes more frequently than it actually does. The networks formed by codesharing agreements, however, are real, and the breadth of an airline's network is a real factor in attracting high-margin corporate travelers. In fact, the spread of codesharing has led directly to the formation of much larger "alliances" of carriers who cooperate on a substantial level, including codesharing and shared frequent-flyer programs. The three largest airline alliances are the Star Alliance, which includes United Airlines, Lufthansa, Air Canada, Air China, and Scandinavian Airlines; SkyTeam, which includes Delta, Air France, Alitalia, and Dutch-based KLM; and Oneworld, which includes AMR, Cathay, Qantas, British Airways, and Japan's JAL.

An airline alliance is one form of a *virtual organization*—in this case, a temporary alliance formed by two or more organizations to pursue a specific venture or to exploit a specific opportunity. Although each member remains an independently owned and managed organization, alliance members can save money by sharing sales, maintenance, and operational facilities and staff (such as check-in, boarding, and other on-the-ground personnel), and they can also cut costs on purchases and investments by negotiating volume discounts. The chief advantages, however, are breadth of service and geographical reach—in short, size (both perceived and real). Star Alliance, for example, operates over 21,000 daily flights to 1,200 airports in 181 countries. According to the most recent data, its members carried 665.4 million passengers for a total of nearly 1 trillion *revenue passenger kilometers* (1 *rpk* means that 1 paying passenger was flown 1 kilometer). Based on *rpk* (which is really a measure of sales volume), Star commands 29.8 percent of global market share in the airline industry—greater than the combined market share of all airlines that don't belong to any of the three major alliances.

Note that our definition of a *virtual organization* indicates a "*temporary* alliance," and shifts by members of airline alliances are not unheard of. In January 2009, for example, a few months after merger talks had broken down with United Airlines, Continental Airlines, a member of SkyTeam since 2004, announced that it was joining United in the Star Alliance. According to one analyst, the move, which took effect in October 2009, "was obviously a precursor to a full-blown merger," and, sure enough, Continental and United merged in May 2010 under a parent company called United Continental Holdings. The new airline, retaining the United Airlines name, remains a member of the Star Alliance.

The Continental–United merger was particularly bad news for both AMR, a member of Oneworld and the country's largest stand-alone airline, and US Airways Group, a member of the Star Alliance and the fifth-largest U.S. carrier. With the merger of Continental and United, says Vaughn Cordle, chief analyst at Airline Forecasts, a specialist in industry investment research, "the odds of … bankruptcy for US Airways and American increase because it will be too difficult, if not impossible, for them to remain viable as stand-alone businesses …. [W]ithout a new strategic direction and significant changes in the industry's structure," Cordle predicts, AMR and US Airways "will continue on the slow … path to failure."

And as predicted, American soon declared bankruptcy. Several months later, US Airways proposed a merger. And after a protracted legal battle, the U.S. Department of Justice approved the merger plans in late 2013. The new airline will retain the American Airlines name but be run by top executives formerly at US Airways. When the merger is finalized, the new airline will be the largest in the world.

Case Questions

1. Take a *situational view of organization design*: What roles have *technology* and *environment* played in the development of alliances and virtual organizations in the airline industry? In what ways does the *corporate-level strategy* of joining an alliance affect an airline's *organizational functions*?
2. In what ways might the *divisional (M-form) designs* of most airlines lend themselves to the requirements of alliance membership? In what ways might they be compatible with the organizational needs of the alliances themselves?
3. According to one industry analyst, "in a scale business … size does matter." What does he mean by "a scale business"? Why is the airline industry "a scale business"? Once you've thought about these

two questions, how would you describe the "specific opportunity" which, as *virtual organizations*, airline alliances are designed to exploit?

4. Have you ever been on a flight that involved a *codesharing* arrangement? Did you notice then—or do you realize now—that there were advantages to the practice of codesharing? Based on what you know about airline travel, list a few of the possible advantages of codesharing for passengers.

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You Make the Call

Authority & Function at A&F

1. If you were hired to advise Michael Jeffries on A&F's current organizational design, what weaknesses and potential threats would you identify? What strengths and opportunities?
2. What kind of organizational design do you think would be best suited to Jeffries's managerial style?
3. What differences might you expect to see between the organizational designs of such traditional retailers as A&F and American Eagle and those at online retailers such as Amazon.com and eBay?
4. Assuming that you wanted a career in retailing, would you want to work for A&F? Why or why not?

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