

twenties and lived in Boulder, Colorado. Both were "free spirits"—more interested in religion, music, and health than the security of an eight-to-five job. But even free spirits have to eat, so Mo and John decided to make and sell herb teas.

Mo and John spent their summer days picking herbs in the canyons surrounding Boulder. Meanwhile, their wives—Peggy Siegel and Beth Hay—sewed bulk tea bags: ten thousand bulk tea bags that first summer! The two couples screened the hundreds of pounds of herbs that the men had collected and mixed them into a concoction that would eventually be called Mo's 24. The mixture would then be crammed into the bulk tea bags and marked. The completed products—which they sold under the brand name of Celestial Seasonings—were sold to natural food stores in the Boulder area.

During the first few years, the people that made up Celestial Seasonings were nothing more than a group of friends and relatives. There were no job descriptions, no production lines, and little specialization of labor. The way the group made decisions was fully in keeping with the values of the founders. Informal meetings were held once a week. It was not unusual for these meetings to last eight hours, while participants dwelled on such topics as the philosophical attributes of tea bags. There were volleyball games during every lunch hour.

But something began to happen in the mid-1970s that changed Celestial Seasonings' structure dramatically. Demand for their herbal teas was exploding. They were moving out of health food stores and into Safeways and A&Ps. More people had to be hired to meet the increased demand. When Celestial Seasonings had been merely two friends and their wives, it could adjust rapidly to new conditions because everyone knew everyone else's job. Communication was easy—they all worked in the same small room. But with more people came the need to develop a more formal structure within which to make and sell their herbal teas. Today Celestial Seasonings employs more than two hundred people who work out of five buildings in the Boulder area. There are departments, production lines, and written job descriptions. The simple days of four people doing everything are gone. Herbs are received in one warehouse and then taken to a highly automated factory for cleaning, milling, and blending. Blending, for instance, is carefully done by specialists to ensure consistency of flavor. On a good day workers will blend eight tons or more of tea into fifteen varieties.

Not surprisingly, Celestial Seasonings has lost a large degree of its "one big happy family" atmosphere. With specialization and departmentalization came the separation of management from workers. Profes-

sionals now abound. Executives—many specializing in production, advertising, and distribution—were hired away from Pepsico, General Foods, Quaker Oats, and Procter & Gamble. The company has expanded into the beauty-products field with a natural shampoo/conditioner and is actively looking for new-product opportunities.

Mo Siegel and John Hay created an organization. The means by which four people made a few thousand dollars worth of tea was no longer efficient for making forty different kinds of herbal teas, with herbs imported from thirty-five countries, and generating sales in excess of \$40 million a year. This kind of volume requires a coordinated structure of people doing specific work tasks. People doing similar activities had to be grouped together into departments. And increasing layers of management were required to coordinate the departmental activities. Additionally, formal written policies, regulations, and rules had to be introduced to facilitate coordination and to ensure that all employees were treated consistently and fairly.

Celestial Seasonings' success is as much a result of having developed a proper structure of planned and coordinated effort as it is of good marketing. The profitable manufacturing and selling of tea requires obtaining raw materials, running efficient production operations, shipping the finished product on time and to the right place, developing new products, and many other activities. But Celestial Seasonings is not unique. The providing of *any* product or service requires planned coordination. As we'll demonstrate, an understanding of organization theory can help managers effectively coordinate their resources and make for more efficient provision of products or services.

CHAPTER ONE

SOME BASIC DEFINITIONS

The Celestial Seasonings story illustrates the creation and growth of an organization. But what precisely do we mean by the term *organization*? Perhaps not as obviously, Mo Siegel and John Hay were also involved with *organization structure*, *organization design*, and *organization theory*. Since all four terms are important and are often confused, let's clarify them.

What Is an Organization? *

An organization is a consciously coordinated social entity, with a relatively identifiable boundary, that functions on a relatively continuous basis to achieve a common goal or set of goals. That's a mouthful of words, so let us break it down into its more relevant parts.

The words *consciously coordinated* imply management. *Social entity* means that the unit is composed of people or groups of people who interact with each other. The interaction patterns that people follow in an organization do not just emerge; rather, they are pre-meditated. Therefore, because organizations are social entities, the interaction patterns of their members must be balanced and harmonized to minimize redundancy yet ensure that critical tasks are being completed. The result is that our definition assumes explicitly the need for coordinating the interaction patterns of people.

An organization has a *relatively identifiable boundary*. This boundary can change over time, and it may not always be perfectly clear, but a definable boundary must exist in order to distinguish members from nonmembers. It tends to be achieved by explicit or implicit contracts between members and their organizations. In most employment relationships, there is an implicit contract where work is exchanged for pay. In social or voluntary organizations, members contribute in return for prestige, social interaction, or the satisfaction of helping others. But every organization has a boundary that differentiates who is and who is not part of that organization.

People in an organization have some *continuing bond*. This bond, of course, does not mean lifelong membership. On the contrary, organizations face constant change in their memberships, although while they are members, the people in an organization participate with some degree of regularity. For a salesperson at Sears Roebuck, that may require being at work eight hours a day, five days a week. At the other extreme, someone functioning on a relatively continuous basis as a member of the National Organization for Women may attend only a few meetings a year or merely pay the annual dues.

Finally, organizations exist to achieve something. These "somethings" are *goals*, and they usually are either unattainable by individuals working alone or, if attainable individually, are achieved more efficiently through group effort. While it is not necessary for

all members to endorse the organization's goals fully, our definition implies general agreement with the mission of the organization.

Notice how all the parts of our definition align with the entity that Mo Siegel and John Hay created. The goals of Celestial Seasonings are to provide health-related products, at a profit, in an environment that is a good place to work. Mo and John hired people; then they developed a formal set of patterns by which these people were required to interact (including specialized tasks to perform and a hierarchy of managers and workers). Members of Celestial Seasonings are identified as employees, managers, or owners. In return for their work effort, they receive compensation. Finally, the organization's life exists beyond that of any of its members. Employees can quit, but they can be replaced so that the activities they perform can be carried on. In fact, Mo and John were able to sell out their interests in Celestial Seasonings with minimal impact upon the operations of the company.

What Is Organization Structure?

Our definition of *organization* recognizes the need for formally coordinating the interaction patterns of organization members. **Organization structure** defines how tasks are to be allocated, who reports to whom, and the formal coordinating mechanisms and interaction patterns that will be followed.

We define an organization's structure as having three components: complexity, formalization, and centralization. We review each in detail in Chapter 4.

Complexity considers the extent of differentiation within the organization. This includes the degree of specialization or division of labor, the number of levels in the organization's hierarchy, and the extent to which the organization's units are dispersed geographically. As tasks at Celestial Seasonings became increasingly specialized and more levels were added in the hierarchy, the organization became increasingly complex. Complexity, of course, is a relative term. Celestial Seasonings, for instance, has a long way to go to approach the complexity of a General Electric or an IBM, where there are hundreds of occupational specialties, nearly a dozen levels between production workers and the chief executive officer, and organizational units dispersed in countries throughout the world.

The degree to which an organization relies on rules and procedures to direct the behavior of employees is *formalization*. Some organizations operate with a minimum of such standardized guidelines; others, some of which are even quite small in size, have all kinds of regulations instructing employees as to what they can and cannot do.

Centralization considers where the locus of decision-making authority lies. In some organizations, decision making is highly centralized. Problems flow upward, and the senior executives choose the appropriate action. In other cases, decision making is decentralized. Authority is dispersed downward in the hierarchy. It is important to recognize that, as with complexity and formalization, an organization is not *either* centralized or decentralized. Centralization and decentralization represent two extremes on a continuum. Organizations *tend* to be centralized or *tend* to be decentralized. The placement of the organization on this continuum, however, is one of the major factors in determining what type of structure exists.

What Is Organization Design?

Our third term—organization design—emphasizes the management side of organization theory. **Organization design** is concerned with constructing and changing an organization's structure to achieve the organization's goals. Constructing or changing an organization is not unlike building or remodeling a house. Both begin with an end goal. The designer then creates a means or plan for achieving that goal. In house construction, that plan is a blueprint. In organization building, the analogous document is an organization chart.

As you proceed through this text, you will see a consistent concern with offering prescriptions for how organizations can be *designed* to facilitate the attainment of the organization's goals. This concern should not be surprising, as this book is intended for business students and managers. You are probably more interested in learning how to design organizations than merely knowing how organizations function. You have a managerial perspective, consistently looking for the application potential in concepts. When organization theory is studied from the perspective of the needs of

managers and future managers, it is oriented heavily toward organization design.

What Is Organization Theory?

From our previous definitions, it is not too difficult to deduce what we mean by the term **organization theory**. It is the discipline that studies the structure and design of organizations. Organization theory refers to both the descriptive and prescriptive aspects of the discipline. It describes how organizations are actually structured and offers suggestions on how they can be constructed to improve their effectiveness. At the end of this chapter, we introduce a model that identifies explicitly the major subparts that make up this discipline we call organization theory. Chapter 2 presents a brief overview of the evolution of organization theory over time.

Contrasting Organization Theory and Organizational Behavior

Since we're clarifying terminology, it might be helpful in this section to differentiate the subject matter of organization theory (OT) from that of organizational behavior (OB). Many students of management and organizations will take courses in both areas, and a brief comparison of the two should assist you in understanding their different terrains as well as their areas of overlap.

Organizational behavior takes a micro view—emphasizing individuals and small groups. It focuses on behavior *in* organizations and a narrow set of employee performance and attitude variables—employee productivity, absenteeism, turnover, and job satisfaction are those most frequently looked at. Individual behavior topics typically studied in OB include perception, values, learning, motivation, and personality. Group topics include roles, status, leadership, power, communication, and conflict.

In contrast, organization theory takes a macro perspective. Its unit of analysis is the organization itself or its primary subunits. OT focuses on the behavior *of* organizations and uses a broader definition of organizational effectiveness. OT is concerned not only with employee performance and attitudes but with the overall organization's ability to adapt and achieve its goals.

This micro-macro distinction creates some overlap. For instance, structural factors have an impact on employee behavior. So students of OB should consider the structure-behavior relationship. Similarly, some micro topics are relevant to the study of OT. But where micro and macro issues overlap, their emphasis is often different. For instance, the topic of conflict in OB tends to focus on interpersonal and intragroup conflicts that derive from personality differences and poor communication. Conflict, when studied by organization theorists, emphasizes problems of inter-unit coordination. While the student of OB is likely to see all conflicts as "people" problems, the student of OT tends to see the same conflict as resulting from flaws in the organization's design. The issue, of course, is not that one is right and the other is wrong. Rather, OB and OT merely emphasize different levels of organizational analysis.

WHY STUDY ORGANIZATION THEORY?

To this point, we have assumed that you are aware of the value of studying organization theory. This may be an incorrect assumption. Therefore, before we go any further, let us address the question directly: Why study OT?

Organizations are the dominant form of institutions in our society. You were probably born in a hospital, and you will probably be put to rest by a mortuary. Both are organizations. The schools that educate us are organizations, as are the stores where we buy our food, the companies that make our automobiles, and the people who take our income tax, collect our garbage, provide for our military defense, and print our daily newspapers.

Organizations pervade all aspects of contemporary life—society as a whole, the economy, and even our personal lives. It is not unreasonable, then, to expect us to want to understand this phenomenon that is so intertwined in our lives. Even though you may have no desire to apply your knowledge, you may simply seek an answer to why organizations with which you interact (and by which you will probably be employed) are structured the way they are.

At a more sophisticated level, you may want to replace your intuitive theories of organization with ones that have been derived scientifically and systematically. Whether or not you study organ-

izations formally, you carry around with you a set of theories about how organizations operate. You go to the Department of Motor Vehicles to get your driver's license renewed; you make a reservation with an airline; you talk to the loan officer at your bank about arranging a student loan; you order it "your way" at the local fast-food hamburger outlet. You undertake all these activities by using some "theory" about how each of these organizations operates and why its members behave as they do. So the issue is not whether you should use theories for dealing with organizations—reality tells us that we use such theories every day. Doesn't it make sense to use theories that have undergone systematic study?

When we use the phrase *systematic study*, we mean looking at relationships, attempting to attribute causes and effects, and basing our conclusions on scientific evidence; that is, data gathered under controlled conditions and measured and interpreted in a reasonably rigorous manner. The objective is to replace intuition or that "gut feeling" one has as to "why organizations are designed as they are" or "what works best when" with scientifically-based theories.

Probably the most popular reason for studying OT is that you are interested in pursuing a career in management. You want to know how organizations operate, have that knowledge based on some scientific evidence, and then use the knowledge for constructing and changing an organization's structure to achieve the organization's goals. In other words, you expect to practice organization design as a manager, administrator, personnel analyst, organizational specialist, or the like.

The final reason for studying OT may not be very exciting, but it is pragmatic—it may be a requirement for a particular degree or certificate you are seeking. You may perceive yourself as a captive in a required course, believing that studying OT may offer no obvious end that has value to you. If this is the case, then the studying of OT is only a means toward that end. It is hoped that one of the earlier reasons holds more relevance for you.

THE BIOLOGICAL METAPHOR

A metaphor is a popular device for making comparisons. It can be extremely helpful for explaining or providing insight into the work-

ings of two phenomena, one of which you already understand fairly well. In this section, we are going to look at organizations (a phenomenon with which we'll assume you are technically unfamiliar) as if they were living organisms like plants, animals, or human beings (phenomena with which we'll assume you *are* reasonably familiar). We call this comparison the biological metaphor.

One caveat before we proceed. Some scholars have questioned whether the biological metaphor is appropriate for application to organizations.² For example, while few would argue that organizations are born, grow, and require continual nourishment for survival, organizations are not predestined to die as all living organisms are. Death may be a part of biological life, but it is not inevitable for organizations. So the metaphor is not perfect. Nevertheless, it has become an increasingly popular conceptual framework for understanding organizations. As you'll see, like living organisms, or-

TEN DIFFERENT WAYS OF LOOKING AT ORGANIZATIONS, OR WHAT YOU SEE IS WHAT YOU GET!

common characteristics

Organizations have been conceptualized in numerous ways.³ The following represent some of the more frequently used descriptions:

1. *Rational entities in pursuit of goals.* Organizations exist to achieve goals, and the behavior of organizational members can be explained as the rational pursuit of those goals.
2. *Coalitions of powerful constituencies.* Organizations are made up of groups, each of which seeks to satisfy its own self-interest. These groups use their power to influence the distribution of resources within the organization.
3. *Open systems.* Organizations are input-output transformation systems that depend on their environment for survival.
4. *Meaning-producing systems.* Organizations are artificially created entities. Their goals and purposes are symbolically created and maintained by management.

Dawn. Klaraya



ganizations grow, pass through predictable stages of development, undergo a series of predictable transitions, and deteriorate if the energy they put out isn't replaced by new inputs. Describing organizations as systems and as proceeding through a life cycle should give you new insights into their makeup.

The Systems Perspective

There is wide agreement among organizational theorists that a systems perspective offers important insights into the workings of an organization.⁴ The following pages introduce the idea of systems, differentiate *open* from *closed* systems, and demonstrate how an open-systems approach can help you to conceptualize better just what it is that organizations do.

5. *Loosely coupled systems.* Organizations are made up of relatively independent units that can pursue dissimilar or even conflicting goals.
6. *Political systems.* Organizations are composed of internal constituencies that seek control over the decision process in order to enhance their position.
7. *Instruments of domination.* Organizations place members into job "boxes" that constrain what they can do and individuals with whom they can interact. Additionally, they are given a boss who has authority over them.
8. *Information-processing units.* Organizations interpret their environment, coordinate activities, and facilitate decision making by processing information horizontally and vertically through a structural hierarchy.
9. *Psychic prisons.* Organizations constrain members by constructing job descriptions, departments, divisions, and standards of acceptable and unacceptable behaviors. When accepted by members, they become artificial barriers that limit choices.
10. *Social contracts.* Organizations are composed of sets of unwritten agreements whereby members perform certain behaviors in return for compensation.

Definition of a System. A **system** is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. Societies are systems, and so too are automobiles, plants, and human bodies. They take inputs, transform them, and produce some output.

The unique characteristic of the systems viewpoint is the interrelationship of parts within the system. Every system is characterized by two diverse forces: differentiation and integration. In a system, specialized functions are differentiated, which replace diffuse global patterns. In the human body, for instance, the lungs, heart, and liver are all distinct functions. Similarly, organizations have divisions, departments, and like units separated out to perform specialized activities. At the same time, in order to maintain unity among the differentiated parts and form a complete whole, every system has a reciprocal process of integration. In organizations, this integration is typically achieved through devices such as coordinated levels of hierarchy; direct supervision; and rules, procedures, and policies. Every system, therefore, requires differentiation to identify its subparts and integration to ensure that the system doesn't break down into separate elements.

Although organizations are made up of parts or subsystems, they are themselves subsystems within larger systems. Just as the human heart is a subsystem within the body's physiological system, the Graduate School of Business at the University of Texas at Austin is a subsystem within the UT-Austin system. If we focus our attention on UT-Austin as the system, then we also recognize that it functions as part of the larger suprasystem of the University of Texas campuses (which include Austin, Dallas, El Paso, and San Antonio, among others). So not only are there systems but there are subsystems and suprasystems. The classification of these three depends on the unit of analysis. If we focus our attention on the Graduate School of Business and make it the system, then UT-Austin becomes the suprasystem, and departments within the graduate school, such as accounting and management, become the subsystems.

Types of Systems. Systems are classified typically as either closed or open. Closed-system thinking stems primarily from the physical sciences. It views the system as self-contained. Its dominant characteristic is that it essentially ignores the effect of the environment on the system. A perfect **closed system** would be one that receives

no energy from an outside source and from which no energy is released to its surroundings. More idealistic than practical, the closed-system perspective has little applicability to the study of organizations.

The **open system** recognizes the dynamic interaction of the system with its environment. A simplified graphic representation of the open system appears in Figure 1-1.

No student of organizations could build much of a defense for viewing organizations as closed systems. Organizations obtain their raw materials and human resources from the environment. They further depend on clients and customers in the environment to absorb their output. Banks take in deposits, convert these deposits into loans and other investments, and use the resulting profits to maintain themselves, to grow, and to pay dividends and taxes. The bank system, therefore, interacts actively with its environment, which is made up of people with savings to invest, other people in need of loans, potential employees looking for work, regulatory agencies, and the like.

Figure 1-2 provides a more complex picture of an open system as it would apply to an industrial organization. We see inputs of

FIGURE 1-1 Basic Open System

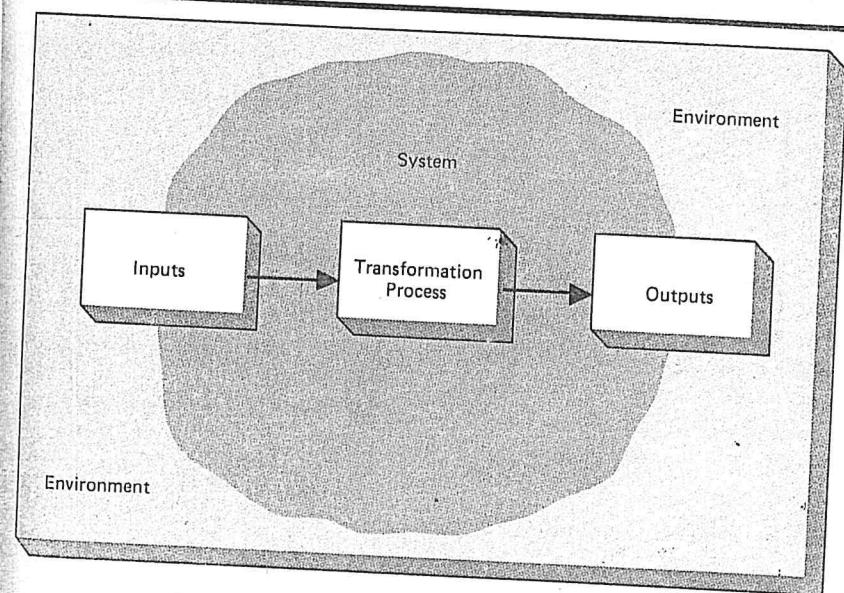
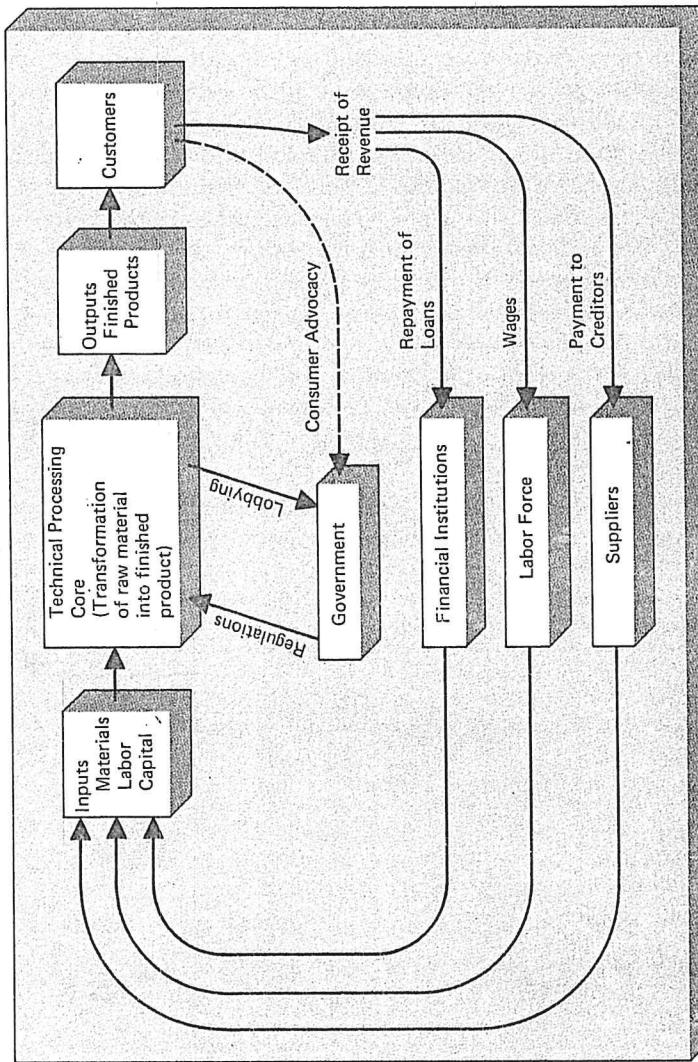


FIGURE 1-2 An Industrial Organization as an Open System



materials, labor, and capital. We see a technological process created for transforming raw materials into finished product. The finished product, in turn, is sold to a customer. Financial institutions, the labor force, suppliers, and customers are all part of the environment, as is government.

If you stop to think about it for a moment, it is difficult to conceive of any system as being fully closed. All systems must have some interaction with their environments if they are to survive. Probably the most relevant way in which to look at the closed-open dichotomy is to consider it as a range rather than as two clearly separate classifications. In this way, we can explain that the degree to which a system is opened or closed varies within systems. An open system, for instance, may become more closed if contact with the environment is reduced over time. The reverse would also be true. General Motors, from its inception through the early 1960s, operated as if it were basically a closed system. Management decided on the products it wanted to sell, produced those products, and offered them to customers. GM assumed that whatever it made would sell, and for decades it was right. Government was generally benign, and consumer-advocate groups were nonexistent or had little influence. GM virtually ignored its environment, for the most part, because its executives saw the environment as having almost no impact on the company's performance. While some critics of GM still attack the firm for being too insulated from its environment, GM has certainly become more open. The actions of consumer groups, stockholders, government regulators, and foreign competition have forced GM to interact with, and be more responsive to, its environment. So while it may not be the model for an open system, GM is more open today than it was thirty years ago.

Characteristics of an Open System. All systems have inputs, transformation processes, and outputs. They take things such as raw materials, energy, information, and human resources and convert them into goods and services, profits, waste materials, and the like. Open systems, however, have some additional characteristics that have relevance to those of us studying organizations.⁵

1. *Environment awareness.* One of the most obvious characteristics of an open system is its recognition of the interdependency between the system and its environment. There is a boundary that

separates it from its environment: Changes in the environment affect one or more attributes of the system, and, conversely, changes in the system affect its environment.

Without a boundary there is no system, and the boundary or boundaries determine where systems and subsystems start and stop. Boundaries can be physical, like the clear lines that separate the United States from its neighbors to the north and south. They also can be maintained psychologically through symbols such as titles, uniforms, and indoctrination rituals. At this point, it is sufficient to acknowledge that the concept of boundaries is required for an understanding of systems and that their demarcation for the study of organizations is problematic.

The interdependency of a system and its environment was highly visible in the early 1980s when Chrysler Corporation was fighting to keep its head above water and avoid bankruptcy. Chrysler's dilemma was to a large degree created by its environment—aggressive foreign competition, OPEC nations that had run up the price of gasoline during the 1970s, and the U.S. government's determination to fight inflation by keeping interest rates high. Such environmental forces had hit hard at Chrysler's product line, which, through most of the 1970s, was made up of large, expensive, high-fuel-consuming automobiles. Although General Motors and Ford faced the same environment, they had a larger volume of sales over which to spread the investment of billions of dollars necessary to retool and produce smaller and more efficient cars. GM and Ford also had substantially stronger financial positions. So Chrysler was clearly affected by its environment. But interestingly, the relationship between Chrysler and its environment was two-way. Suppliers, the state of Michigan, the United Automobile Workers union, and the federal government (by way of loan guarantees) were all affected by Chrysler's problems. While few organizations have the impact on their environment of a Chrysler Corporation, the fact remains that all open systems affect their environment to some degree.

2. Feedback. Open systems continually receive information from their environment. This helps the system to adjust and allows it to take corrective actions to rectify deviations from its prescribed course. We call this receipt of environmental information feedback; that is, a process that allows a portion of the output to be returned to the system as input (such as information or money) so

as to modify succeeding outputs from the system. In the case of Chrysler Corporation, management was able to respond successfully to its problems because it effectively read the feedback it received and adjusted accordingly. The public's favorable response to the fuel-efficient K-cars, attractive convertibles, Caravan wagons, and rigorous quality-control measures all were achieved because Chrysler's management successfully read the feedback it got from its environment.

3. Cyclical character. Open systems are cycles of events. The system's outputs furnish the means for new inputs that allow for the repetition of the cycle. This was demonstrated in Figure 1-2; the revenue received by the customers of the industrial firm must be adequate enough to pay creditors and the wages of employees and to repay loans if the cycle is to be perpetuated and the survival of the organization maintained.

4. Negative entropy. The term **entropy** refers to the propensity of a system to run down or disintegrate. A closed system, because it does not import energy or new inputs from its environment, will run down over time. In contrast, an open system is characterized by negative entropy—it can repair itself, maintain its structure, avoid death, and even grow because it has the ability to import more energy than it puts out.

5. Steady state. The input of energy to arrest entropy maintains some constancy in energy exchange resulting in a relatively steady state. Even though there is a constant flow of new inputs into the system and a steady outflow, on balance the character of the system remains the same. Your body will replace most of its dying cells in any given year, but your physical appearance alters very little. So while an open system is active in processing inputs to outputs, the system tends to maintain itself over time.

6. Movement toward growth and expansion. The steady-state characteristic is descriptive of simple or primitive open systems. As the system becomes more complex and moves to counteract entropy, open systems move toward growth and expansion. This is not a contradiction of the steady-state thesis.

To ensure their survival, large and complex systems operate in a way to acquire some margin of safety beyond the immediate level of existence. The many subsystems within the system, to avoid entropy, tend to import more energy than is required for its output.

The result is that the steady state is applicable to simple systems but, at more complex levels, becomes one of preserving the character of the system through growth and expansion. We see this in our bodies as they attempt to store fat. We see it too among large corporations and government bureaucracies that, not satisfied with the status quo, attempt to increase their chances of survival by actively seeking growth and expansion.

A final point on this characteristic needs to be made: The basic system does not change directly as a result of expansion. The most common growth pattern is one in which there is merely a multiplication of the same type of cycles or subsystems. The quantity of the system changes while the quality remains the same. Most colleges and universities, for instance, expand by doing more of the same thing rather than by pursuing new or innovative activities.

7. Balance of maintenance and adaptive activities. Open systems seek to reconcile two, often conflicting, activities. **Maintenance activities** ensure that the various subsystems are in balance and that the total system is in accord with its environment. This, in effect, prevents rapid changes that may unbalance the system. In contrast, **adaptive activities** are necessary so that the system can adjust over time to variations in internal and external demands. So whereas one seeks stability and preservation of the status quo through the purchase, maintenance, and overhaul of machinery; the recruitment and training of employees; and mechanisms such as the provision and enforcement of rules and procedures, the other focuses on change through planning, market research, new-product development, and the like.

Both maintenance and adaptive activities are required if a system is to survive. Stable and well-maintained organizations that do not adapt as conditions change will not endure long. Similarly, the adaptive but unstable organization will be inefficient and unlikely to survive for long.

8. Equifinality. The concept of **equifinality** argues that there are a number of ways to skin a cat. More exactly, it states that a system can reach the same final state from differing initial conditions and by a variety of paths. This means that an organizational system can accomplish its objectives with varied inputs and transformation processes. As we discuss the managerial implications of organization theory, it will be valuable for you to keep the idea of equifinality in mind. It will encourage you to consider a variety of

solutions to a given problem rather than to seek some rigid optimal solution.

Importance of the Systems Perspective. The systems point of view is a useful framework for students of management to conceptualize organizations. For managers and future managers, the systems perspective permits seeing the organization as a whole with interdependent parts—a system composed of subsystems. It prevents, or at least deters, lower-level managers from viewing their jobs as managing static, isolated elements of the organization. It encourages all managers to identify and understand the environment in which their system operates. It helps managers to see the organization as stable patterns and actions within boundaries and to gain insights into why organizations are resistant to change. Finally, it directs managers' attention to alternative inputs and processes for reaching their goals.

However, the systems perspective should not be viewed as a panacea. The system's framework has its limitations, the most telling being its abstractness. It is one thing to argue that everything depends on everything else. It is a much different thing to offer suggestions to managers on what precisely will change, and to what degree, if a certain action is taken. Its value, therefore, lies more in its conceptual framework than in its direct applicability to solving managers' organizational problems.

The Life-Cycle Perspective

As noted earlier in this chapter, organizations are born, grow, and eventually die (though it may take a hundred years or more). New organizations are formed daily. At the same time, every day hundreds of organizations close their doors, never to open again. We especially see this birth and death phenomenon among small businesses. They pop up and disappear in every community. In this section, we will build on the biological metaphor of organizations proceeding through life-cycle stages. Like human beings, we will argue, all organizations are born, live, and die. Also, like human beings, some develop faster than others and some do a far better job of aging than others, but the metaphor remains an interesting way to conceptualize the life of an organization.

Definition of a Life Cycle. A **life cycle** refers to a pattern of predictable change. We propose that organizations have life cycles whereby they evolve through a standardized sequence of transitions as they develop over time. By applying the life-cycle metaphor to organizations, we are saying that there are distinct stages through which organizations proceed, that the stages follow a consistent pattern, and that the transitions from one stage to another are predictable rather than random occurrences.

Life-Cycle Stages. The life-cycle concept has received a great deal of attention in the marketing literature. The life cycle is used to show how products move through four stages: birth or formation, growth, maturity, and decline. The implication for management is that the continual introduction of new products is required if the organization is to survive over the long run.

We could use the same four stages in describing organizations, but organizations are not products. Organizations have some unique characteristics, which require some modifications in our description. Research on the organization life cycle leads us to a five-stage model:⁶

1. *Entrepreneurial stage.* This stage is synonymous with the formation stage in the product life cycle. The organization is in its infancy. Goals tend to be ambiguous. Creativity is high. Progress to the next stage demands acquiring and maintaining a steady supply of resources.

2. *Collectivity stage.* This stage continues the innovation of the earlier stage, but now the organization's mission is clarified. Communication and structure within the organization remains essentially informal. Members put in long hours and demonstrate high commitment to the organization.

3. *Formalization-and-control stage.* The structure of the organization stabilizes in the third stage. Formal rules and procedures are imposed. Innovation is deemphasized, while efficiency and stability are emphasized. Decision makers are now more entrenched, with those in senior authority positions in the organization holding power. Decision making also takes on a more conservative posture. At this stage, the organization exists beyond the presence of any one individual. Roles have been clarified so that the departure of members causes no severe threat to the organization.

4. *Elaboration-of-structure stage.* In this stage, the organization diversifies its product or service markets. Management searches for new products and growth opportunities. The organization structure becomes more complex and elaborated. Decision making is decentralized.

5. *Decline stage.* As a result of competition, a shrinking market, or similar forces, the organization in the decline stage finds the demand for its products or services shrinking. Management looks for ways to hold markets and look for new opportunities. Employee turnover, especially among those with the most saleable skills, increases. Conflicts increase within the organization. New people assume leadership in an attempt to arrest the decline. Decision making is centralized in this new leadership.

Do all organizations proceed through the five stages? Not necessarily!⁷ If possible, management would like to avoid having the organization reach stage five. However, excluding this stage from our model assumes that organizations follow an unending growth curve or at least hold stable. This obviously is an optimistic assumption. No organization, or society for that matter, can endure for eternity. But some can last for a very long time and outlive any of their members. Standard Oil (now Exxon) and U.S. Steel (now USX), for example, are both more than eighty years old. The U.S. government has been around for more than two hundred years. Whether these examples are now in the decline stage is questionable, but certainly our model must recognize decline and even the possibility of death.

Do the life-cycle stages correlate with an organization's chronological age? Not at all! Observation confirms that some organizations have reached stages three and four in less than five years after being formed, while others are forty years old and still in their collectivity stage. In fact, some successful organizations seek to stay in the early stages. For instance, the management of Apple Computer has explicitly stated a commitment to try to remain in stage two as long as it can.⁸

A final question: Can we reconcile our five-stage organization life-cycle model with the more traditional four-stage model of formation, growth, maturity, and decline? The answer is yes. As shown in Figure 1-3, formation and the entrepreneurial stage are synonymous. Collectivity is essentially comparable with growth. Stages three and four in our model—formalization and elaboration—ap-

CASE STUDIES

CASE 1

INFORMATION SYSTEMS AT MRS. FIELDS' COOKIES

Based on Tom Richman, "Mrs. Fields' Secret Ingredient," Inc., October 1987, pp. 65-72.

Mrs. Fields' Cookies has nearly five hundred stores in thirty-seven states. In contrast to many food retailers, Mrs. Fields' stores are not franchised operations. Rather, all the stores are owned by Debbi and Randy Fields, and run out of their headquarters in Park City, Utah. The secret to managing this widely dispersed operation is a computer system that is "state of the art."

Mrs. Fields' specialty is fresh and warm chocolate chip cookies. But most of the company's nearly 4500 store employees are young and inexperienced, and know little about the cookie business. Without a knowledgeable owner-manager to guide them, few are skilled enough to know, for example, how many batches of cookie dough to mix each day or when to mix them in order to meet demand and minimize leftovers, how to calculate crew schedules, or how to differentiate applicants who will succeed from those who will fail. So Randy Fields has installed a computer-based information system to do all these things for the store employees.

Each store manager begins his or her day by calling up the Day Planner program on the store computer. The computer will ask the manager a set of questions such as, What day of the week is it? Is it a normal day, school day, holiday, or other? Once these data are entered, the program reviews the store's performance on

the last three previous comparable days. It then sets out the day's sales goals, hour by hour and for each product. It states how many customers will be needed each hour and how much each customer will need to purchase. Further, it tells the manager how many batches of cookie dough to make and when to make them. As the day progresses, sales data are entered in the computer hourly. The program can then revise the hourly projections and offer suggestions on how to improve sales. For example, if the average sale is too low, it will provide tips on suggestive selling. If the customer count is down, it might recommend having an employee offer samples to passersby outside. Of course, the individual store computers are linked to Park City, so Randy has almost instant access to how things are going at every store.

This information system also does a number of other functions for store managers. Based on sales projections, it schedules hourly crew needs for two weeks in advance. It has a program that job candidates complete, which, based on answers given by past hires, provides a valuable profile to the store manager on any applicant's potential to succeed as a Mrs. Fields' employee. The system even has a repair program that helps managers to pinpoint equipment problems. If the problem requires outside repair work, the computer sends a repair request to Park City telling the staff there which machine is broken, its maintenance history, and which vendor to call.

Randy Fields believes this system will allow him, his wife, and their small corporate staff to oversee one thousand stores the same way that they did when they had thirty. He argues that he has created the shape of future business organizations that are spatially dispersed—the management hierarchy of the company feels almost flat to store managers, while tight management controls are maintained.

QUESTIONS

1. Describe Mrs. Fields' Cookies in terms of its complexity, formalization, and centralization.
2. Do management information systems, such as the one at Mrs. Fields, alter the conclusion that large size leads to increased vertical differentiation, formalization, and decentralization? Discuss.
3. Are computerized information systems part of an organization's technology? Explain.

4. "This system leads to better store-level decisions." Do you agree or disagree? Support your position.
5. What negative store-level repercussions might result from this system?
6. Explain the potential impact of computerized information systems from the power-control perspective.

CASE 2**SEARS TRIES TO STOP ITS MARKET-SHARE SLIDE**

Based on Francine Schwadel, "Its Expansion Lagging, Sears Now Struggles to Stay Independent," *Wall Street Journal*, November 2, 1988, p. 1; Patricia Sellers, "Why Bigger Is Badder at Sears," *Fortune*, December 5, 1988, pp. 79-84; and "Will the Big Markdown Get the Big Store Moving Again?" *Business Week*, March 13, 1989, pp. 110-14.

Sears, Roebuck & Co. once ranked as the premier retailer in the United States. In the 1940s, while competitors played it conservative, Sears management foresaw the growth of suburbia and aggressively located new stores in large suburban shopping centers that offered plenty of parking for the growing number of automobiles consumers were buying. Sears' sales and profits grew impressively. But the company ran into problems in the 1980s. For instance, in 1987, Sears sales grew only 4.3 percent, whereas Wal-Mart's exploded by 34 percent. By the late 1980s, Sears had lost its number-one position in retailing to Kmart, with Wal-Mart closing fast in the third slot. Sears' problems included a bloated structure that created incredibly high operating expenses, an unwieldy system that did a poor job of coordinating and controlling operations, a recent history of inconsistent merchandising and pricing strategies, and an organizational culture that adamantly resisted change.

Sears' selling and administrative expenses represented 30 percent of its sales versus 24 percent at J. C. Penney and Kmart and 17 percent at Wal-Mart. Sears' distribution costs—around 8 percent of sales versus about 2 percent at Wal-Mart and Kmart—were the highest in retailing. These high costs made it hard for Sears to offer competitive prices. General merchandisers like Kmart, single-

category discounters such as Toys "R" Us and Circuit City Stores, and hundreds of specialty catalog mail-order firms had attacked Sears from multiple directions by offering a comparable or superior selection of goods at lower prices. Between 1978 and 1988, Sears' share of general merchandise sales in the U.S. fell from 18 to 13 percent. That represented \$8.4 billion lost to competitors.

The coordination and control problems of overseeing 825 outlets and 526,000 people seem to have overwhelmed Sears' management. Decision-making had become too centralized. The company's corporate staff occupied 60 percent of the 110-story Sears Tower in Chicago. What once was viewed as "the nice store down the street" had become a remote, powerful corporation. As an example of the coordination and control problems, a visit to a Sears store in New Jersey found that every female mannequin in view—at least ten—had torn stockings. The jewelry department had empty cosmetic racks in it and huge photos of heavily made-up models on the walls even though the conversion of the section from cosmetics to jewelry had taken place six months before. In response, Sears announced in late 1988 that it intended to sell the Sears Tower and move 90 percent of the 8000 corporate staff personnel to cheaper quarters.

One of the more perplexing dilemmas for loyal Sears' customers has been to try to decipher just where Sears stood in the retail hierarchy. Originally, Sears built its reputation on a strategy of offering high-quality, moderate-priced merchandise sold under its own private-label brands. Names like Craftsman, Diehard, and Kenmore had become synonymous with dependability. Its pricing policy was not to be a discount store, but rather to offer hundreds of different items each week on sale. The public learned to watch for these sale items, as attested by the fact that 55 percent of Sears' goods were sold at reduced prices. This image got clouded in the early 1980s when Sears tried to reposition itself as a fashion store. Toward that end, for example, it developed a line of Cheryl Tiegs designer-label clothing. However, its most significant strategic shift was initiated in the spring of 1989. Sears proposed to pursue a strategy of "everyday low pricing." Prices of almost all goods were sharply and permanently cut, and deep-discount promotions were largely eliminated. Sears believed this strategy would cut its administrative overhead and allow it to compete more directly with discounters. Company management believed it would be able to

become a low-cost operator by dropping hundreds of styles and models (and thus significantly cutting inventories) and by ending the huge promotional expenses associated with planning, buying, storing, distributing, and advertising the on-going sale goods. Moreover, the new strategy has Sears selling name brands like RCA, Sony, and Maytag alongside its own private-label brands.

Finally, Sears has a long-established culture that has bred arrogance among its employees and management. After dominating the retailing industry for as many years as Sears did, its people saw themselves as working for an American institution. Anything new or different was seen as threatening and, therefore, needed to be resisted. Sears' conservative inbred managers were very slow to respond to any change in the company's environment. Executives, sequestered in the upper floors of the Sears Tower, seemed to be a million miles removed from the needs and concerns of their customers. In response to this static and conservative culture, Sears senior executive have been trying to change their attitudes. For instance, in 1987, 135 of them went to a New Mexico retreat to experience taking risks together with the support of their peers. But the inbreeding and cockiness may be too deep to change easily. In spite of all of Sears' problems, when its CEO was asked in late 1988 what he thought the biggest problem he faced in 1989 was, he replied, "I don't see any huge problems. I feel very good about how we're positioned strategically."

QUESTIONS

1. Describe how Sears' original strategy influenced its structure.
2. Do you think its change in strategy in 1989 should have led to changes in structure? Explain.
3. How has size influenced Sears' structure?
4. Kmart is almost the same size as Sears but is more effective. What structural factors do you think might contribute to Kmart being more effective than Sears?
5. Is Sears a mature or a declining firm? Support your position.
6. What problems does Sears face that Wal-Mart and Kmart don't?

CASE 3

MERGING AMC INTO CHRYSLER

Based on "Digesting AMC: So Far, So Good," *Business Week*, February 22, 1988, pp. 130-32.

American Motors Corporation might have been a "little guy" by auto industry standards, but with sales of \$3.5 billion, it certainly qualifies as a large organization. When it was bought in August of 1987 by Chrysler Corp., Chrysler chairman Lee Iacocca described the task of merging AMC into Chrysler's operation akin to "swallowing a whale."

Before Japanese firms like Honda and Nissan began producing cars in the United States, AMC regularly held fourth place among the so-called Big Four U.S. automobile manufacturers—behind General Motors, Ford, and Chrysler. AMC had given America cars like the "little Nash Rambler," the Pacer, and the Hornet. But Chrysler wanted AMC predominantly for its highly popular and profitable line of Jeeps and for its new Canadian manufacturing plant. Never a major money-maker, Chrysler was also intent on making AMC more efficient. Iacocca needed not only to merge AMC into Chrysler, but he wanted to cut its operating costs as he had done at Chrysler when he took over in 1980.

The difficulty of merging AMC into Chrysler would not be easy under the best of circumstances, but it was especially challenging in the summer of 1987. Specifically, automobile and truck sales in the United States fell 7 percent that year and U.S. unit sales of Chrysler's line of cars slid 16 percent. Chrysler's pretax profit margin was down to 8.3 percent from 10.2 percent in 1986. Moreover, Japanese carmakers were boosting output at their newly built U.S. factories and Korean automakers, particularly Hyundai, were rapidly expanding their market share. Meanwhile, AMC was preparing to launch the Premier, the first of its new Eagle line of cars, in the fall of 1987.

During the six months following the August 1987 purchase of AMC, Iacocca made every minute count. For example, to boost Jeep production fast at AMC's well-worn Toledo plant, he got workers to work overtime on Saturdays in return for a promise to keep the factory running through 1992; he shut down AMC's 86-year-

old Kenosha, Wisconsin, plant, eliminating 5500 jobs and cutting total capacity by 230,000 vehicles; and he began cloning other practices he had used at Chrysler to cut costs, such as reducing steel inventories at stamping plants by 80 percent and eliminating duplications in the production of parts.

QUESTIONS

1. How does the purchase of AMC help Chrysler to manage its environment?
2. If you had been Iacocca in August 1987, what actions would you have taken to reduce resistance among AMC personnel to changes caused by Chrysler's acquisition?
3. At the time of Chrysler's purchase of AMC, was Chrysler a growing, stagnant, or declining organization? How about AMC?
4. Are management efforts to increase efficiency through reductions in staff indicative of an organization in decline? Discuss.
5. How is the acquisition of AMC likely to change Chrysler's organization structure?

HANDS-OFF MANAGEMENT AT DOVER CORPORATION

Based on Robert McGough, "Hands-Off Managers," *Forbes*, December 1, 1986, pp. 81-84.

Even though Dover Corp. has annual sales of \$1.4 billion, most people have never heard of it. That's because Dover is really a group of 41 different businesses that make such items as bearings, lifts, nozzles, and sucker rods that go into oil pumps, factory controls, and other similar industrial products.

While Dover may not make products with household names, its management knows how to make money. Profits continue to climb each year, and its five-year average return on equity of 21.7 percent is significantly better than well-known conglomerates like ITT. The secret of Dover's success is its unusual organization design. For a company of its size, it has an amazingly small corporate

CASE 4

headquarters staff and gives its operating managers an unusual amount of autonomy.

Dover's headquarters office in New York City has only twenty people. The company has no corporate director of sales, personnel, compensation, or corporate planning, and no internal audit staff. The forty-one subsidiaries are divided into five groups, each with its own president and board of directors. These group offices are also small—with only three to five people in each. The head of the subsidiaries rarely have contact with Dover's CEO, unless they initiate the interaction. But when they have a problem or need something from Dover, such as funds to build a new plant, they don't have to communicate through a multilevel bureaucracy. They merely take their concern to their group president. The idea is to let the operating heads of each subsidiary run his or her business independent of external interference. The chief task of Dover headquarters is to take the cash produced by these businesses and buy more like them.

QUESTIONS

1. Most billion-dollar conglomerates have a staff of at least several hundred employees at headquarters. Why?
2. Is Dover's operation undermanaged? Explain.
3. Describe Dover's organization structure. What types of design is management using?
4. How has Dover's strategy influenced its structure?
5. In a conglomerate, what functions, if any, are better performed at corporate headquarters rather than at the unit level? Explain your answer.

CASE 5

FORD VERSUS THE GENERAL

Based on Anne B. Fisher, "GM is Tougher Than You Think," *Fortune*, November 10, 1986, pp. 56-64; William J. Hampton and James R. Norman, "General Motors: What Went Wrong," *Business Week*, March 16, 1987, pp. 102-10; Brian S. Moskal, "Glasnost in Dearborn," *Industry Week*, September 21, 1987, pp. 53-55; Alex Taylor III, "Why Fords Sell Like Big Macs," *Fortune*, November 21, 1988, pp. 122-25; and James B.