chapter 8

Organization Structure

> *Take my assets—but leave me my organization and in five years I'll have it all back.*
>
> — Alfred P. Sloan Jr.

LEARNING OBJECTIVES

After studying Chapter 8, you will be able to:

CHAPTER OUTLINE

Management Close-Up

CAN NANCY SNYDER'S BRIGHT IDEA SECURE WHIRLPOOL'S FORTUNES?

For decades, the name Whirlpool has been synonymous with top-quality, high-performing appliances: refrigerators, dishwashers, freezers, ranges, washers and dryers, and more. Founded in 1911, Whirlpool Corporation rose to become the world's largest manufacturer of home appliances, with annual sales of more than $10 billion. By the late 1990s, however, Whirlpool's growth with those big-ticket items had ground to a halt. The company's profits were falling, and its share price hit an all-time low.

Whirlpool leaders sought to stop the bleeding by cutting costs and laying off 10 percent of the company's 60,000-member workforce. At the same time, however, they knew Whirlpool couldn't trim its way to prosperity.

That was when CEO David R. Whitwam had a revolutionary notion. At the time, Whirlpool was organized traditionally in terms of product development—it was the responsibility of the marketing and engineering departments. But Whitwam decided to cast his net wider for new-product ideas. He sent a message to every Whirlpool employee—from laborers on the production floor all the way to executives in the corner offices. His invitation: send me your thoughts for what could be new Whirlpool moneymakers.

Whitwam named Whirlpool employee Nancy R. Snyder Chief Innovation Officer. With the promotion came the directive to figure out how to make Whirlpool the leader in innovation, as well as the market leader in appliances. Whirlpool employees around the globe responded to Whitwam's message, and Snyder received over a thousand ideas—some of them interesting, others fanciful. To manage the deluge, she mobilized a team of 75 employees at all levels across the company to evaluate the new ideas and brainstorm others. Although this group did generate one successful idea—the Gladiator line of cabinets and appliances for garages—the 75-person team was too cumbersome. Furthermore, Whirlpool's middle managers grew annoyed with their employees spending time pursuing creative projects, many with little or no potential for marketability, instead of focusing on the work at hand.[1]

{ A well-known company with a solid reputation, Whirlpool needed to find a way to break out of its doldrums and begin growing again. As you read this chapter, consider how Nancy Snyder adapted Whirlpool's organizational structure to find the solution to the problem. }

Many of us know about Whirlpool and would think of it as enormously successful. Yet, a few years ago, growth at the company had slowed. Profits were falling, and the Whirlpool brands were perceived as "status quo." How could the company respond to this situation? The way in which a company organizes itself to address an issue such as declining profits may well be the most important factor in determining whether its strategy will succeed. Whirlpool, like many other companies, is working hard to make certain that its strategy and structure are aligned.

Whirlpool's profits were falling, growth at the company was slowing down, and their products were perceived as being "status quo." How can the company respond to this situation? Whirlpool Corporation and Chinese electronics company Hisense have recently formed a joint venture. The 50-50 joint venture was formed for the delivery of new world-class and innovative appliances to consumers in the U.S. and China. The companies will share research, technology, and procurement and development resources to produce state-of-the art refrigerators and washing machines to a worldwide market.

This chapter focuses on the vertical and horizontal dimensions of organization structure. We begin by covering basic principles of *differentiation* and *integration*. Next, we discuss the vertical structure, which includes issues of *authority*, hierarchy, delegation, and decentralization. We continue on to describe the horizontal structure, which includes functional, divisional, and matrix forms. Finally, we illustrate the ways in which organizations can integrate their structures: coordination by standardization, coordination by plan, and coordination by mutual adjustment.

In the next chapter, we continue with the topic of organization structure but take a different perspective. In that chapter we focus on the flexibility and responsiveness of an organization, that is, how capable it is of changing its form and adapting to strategy, technology, the environment, and other challenges it confronts.

Fundamentals of Organizing

LO 1

organization chart

The reporting structure and division of labor in an organization.

To get going, let's start simple. We often begin to describe a firm's structure by looking at its organization chart. The **organization chart** depicts the positions in the firm and the way they are arranged. The chart provides a picture of the reporting structure (who reports to whom) and the various activities that are carried out by different individuals. Most companies have official organization charts drawn up to give people this information.

Figure 8.1 shows the traditional organization chart. Note the various types of information that are conveyed in a very simple way:

1. The boxes represent different work.
2. The titles in the boxes show the work performed by each unit.
3. Reporting and authority relationships are indicated by solid lines showing superior–subordinate connections.
4. Levels of management are indicated by the number of horizontal layers in the chart. All persons or units that are at the same rank and report to the same person are on one level.

Although the organization chart presents some important structural features, other design issues related to structure—while not so obvious—are no less significant. Two

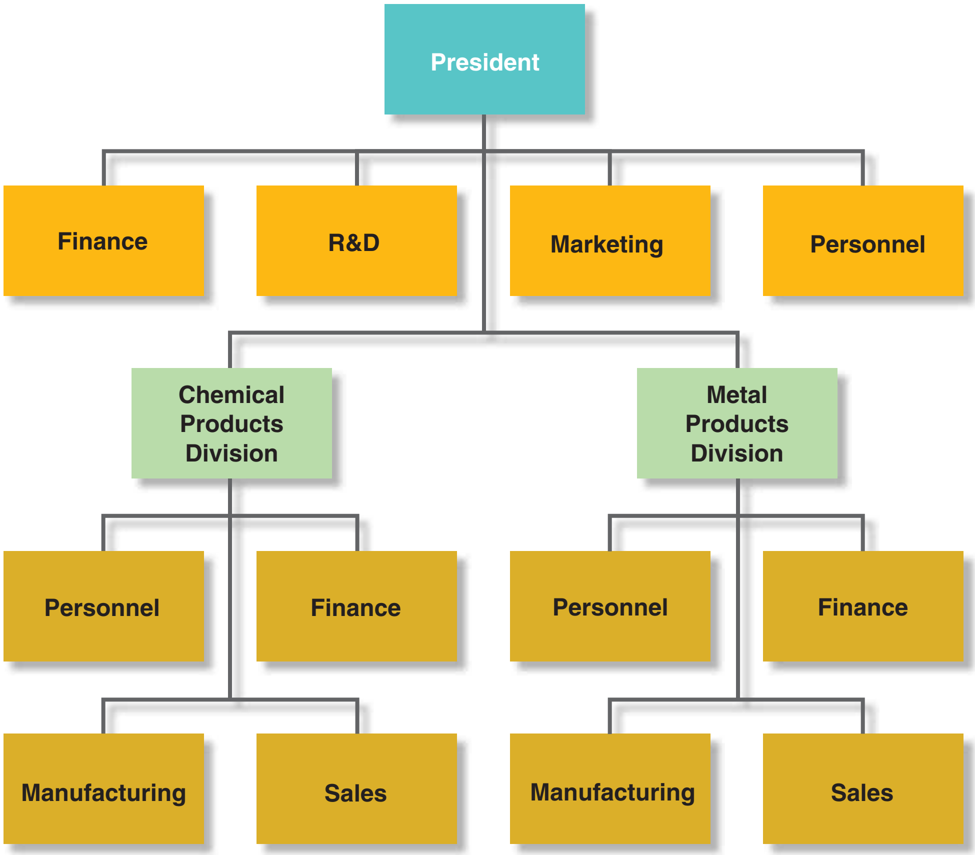


FIGURE 8.1
A Conventional Organization Chart

fundamental concepts around which organizations are structured are differentiation and integration. **Differentiation** means that the organization is composed of many different units that work on different kinds of tasks, using different skills and work methods. **Integration** means that these differentiated units are put back together so that work is coordinated into an overall product.[2]

differentiation
An aspect of the organization's internal environment created by job specialization and the division of labor.

integration
The degree to which differentiated work units work together and coordinate their efforts.

Differentiation

Several related concepts underlie the idea of structural differentiation. For example, differentiation is created through division of labor and job specialization. **Division of labor** means the work of the organization is subdivided into smaller tasks. Various individuals and units throughout the organization perform different tasks. **Specialization** refers to the fact that different people or groups often perform specific parts of the larger task. The two concepts are, of course, closely related. Administrative assistants and accountants specialize in, and perform, different jobs; similarly, marketing, finance, and human resources tasks are divided among the respective departments. The many tasks that must be carried out in an organization make specialization and division of labor necessities. Otherwise, the complexity of the overall work of the organization would be too much for any individual.[3]

Differentiation is high when an organization has many subunits and many kinds of specialists who think differently. Harvard professors Lawrence and Lorsch found that organizations in complex, dynamic environments (plastics firms in their study) developed a high degree of differentiation to cope with the complex challenges. Companies in simple, stable environments (container companies) had low levels of differentiation. Companies in intermediate environments (food companies) had intermediate differentiation.[4]

division of labor
The assignment of different tasks to different people or groups.

specialization
A process in which different individuals and units perform different tasks.

Integration

As organizations differentiate their structures, managers must simultaneously consider issues of integration. All the specialized tasks in an organization cannot be performed completely independently. Because the different units are part of the larger organization, some degree of communication and cooperation must exist among them. Integration and its related concept, **coordination,** refer to the procedures that link the various parts of the organization to achieve the organization's overall mission.

coordination

The procedures that link the various parts of an organization for the purpose of achieving the organization's overall mission.

Integration is achieved through structural mechanisms that enhance collaboration and coordination. Any job activity that links different work units performs an integrative function. Remember, the more highly differentiated your firm, the greater the need for integration among the different units. Lawrence and Lorsch found that highly differentiated firms were successful if they also had high levels of integration. Organizations are more likely to fail if they exist in complex environments and are highly differentiated but fail to integrate their activities adequately.[5] In contrast, focusing on integration may slow innovation, at least for a while. In a study tracking the outcomes at information technology companies that acquired other firms, companies with more structural integration were less likely to introduce new products soon after the acquisition, but integration had less of an impact on product launches involving more experienced target companies.[6]

These concepts permeate the rest of the chapter. First, we discuss *vertical differentiation* within organization structure. This concept includes issues pertaining to authority within an organization, the board of directors, the chief executive officer, and hierarchical levels, as well as issues pertaining to delegation and decentralization. Next, we turn to *horizontal differentiation* in an organization's structure, exploring issues of departmentalization that create functional, divisional, and matrix organizations. Finally, we cover issues pertaining to *structural integration*, including coordination, organizational roles, interdependence, and boundary spanning.

The Vertical Structure

LO 2

To understand issues such as reporting relationships, authority, responsibility, and the like, we need to begin with the vertical dimension of a firm's structure.

Authority in Organizations

At the most fundamental level, the functioning of every organization depends on the use of **authority,** the legitimate right to make decisions and to tell other people what to do. For example, a boss has the authority to give an order to a subordinate.

authority

The legitimate right to make decisions and to tell other people what to do.

Traditionally, authority resides in *positions* rather than in people. Thus, the job of vice president of a particular division has authority over that division, regardless of how many people come and go in that position and who currently holds it.

In private business enterprises, the owners have ultimate authority. In most small, simply structured companies, the owner also acts as manager. Sometimes the owner hires another person to manage the business and its employees. The owner gives this manager some authority to oversee the operations, but the manager is accountable to—that is, reports and defers to—the owner. Thus, the owner still has the ultimate authority.

Formal position authority is generally the primary means of running an organization. An order that a boss gives to a lower-level employee is usually carried out. As this occurs throughout the organization day after day, the organization can move forward and achieve its goals.[7] However, authority in an organization is not always position-dependent. People with particular expertise, experience, or personal qualities may

> "Authority without wisdom is like a heavy axe without an edge, fitter to bruise than polish."
>
> —Anne Bradstreet

have considerable *informal* authority—scientists in research companies, for example, or employees who are computer-savvy. Effective managers are aware of informal authority as a factor that can help or hinder their achievement of the organization's goals; we will say more about informal authority in the next chapter. For now, we discuss the formal authority structure of the organization from the top down, beginning with the board of directors.

LO 3

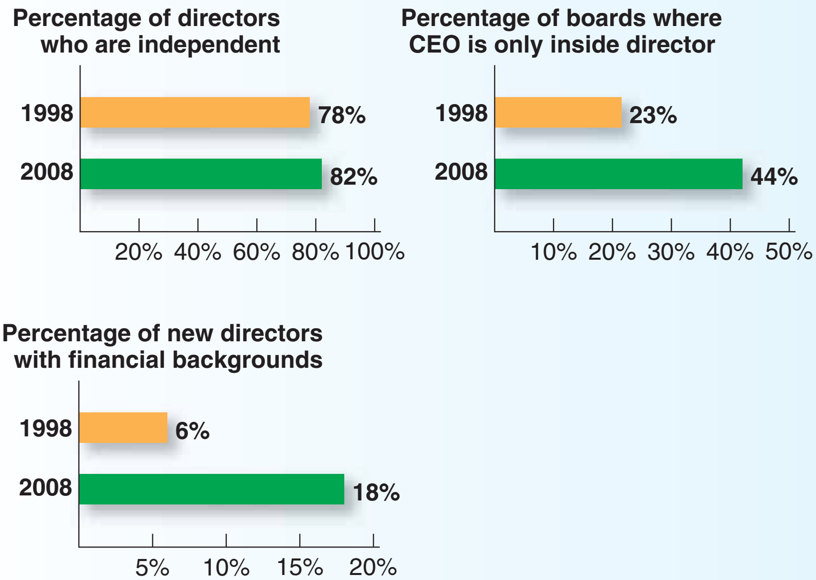
Board of Directors In corporations, the owners are the stockholders. But because there are numerous stockholders and these individuals generally lack timely information, few are directly involved in managing the organization. Stockholders elect a board of directors to oversee the organization. The board, led by the chair, makes major decisions affecting the organization, subject to corporate charter and bylaw provisions. Boards perform at least three major sets of duties: (1) selecting, assessing, rewarding, and perhaps replacing the CEO; (2) determining the firm's strategic direction and reviewing financial performance; and (3) ensuring ethical, socially responsible, and legal conduct.[8] In a move that addresses both the board's responsibility for CEO compensation and public concern that directors have become too cozy with executives, the board of directors at Aflac recently decided they would ask shareholders to vote on the pay packages of the insurance company's executives. The votes serve an advisory purpose. Aflac's directors still decide on the pay packages, but they can see whether they are acting in accordance with shareholders' wishes.[9]

Large corporations have a shareholder-elected board of directors. Small-business leaders can benefit from the expertise of outside executives in the same way by forming peer groups or attending monthly meetings with business owners from noncompeting companies to trade advice.

The board's membership usually includes some top executives—called *inside directors*. Outside members of the board tend to be executives at other companies. The trend in recent years has been toward reducing the number of insiders and increasing the number of outsiders. Today most companies have a majority of outside directors. Boards made up of strong, independent outsiders are more likely to provide different information and perspectives and to prevent big mistakes. Successful boards tend to be those who are active, critical participants in determining company strategies. Even so, in the wake of scandals and lawsuits, many boards have shifted their focus to compliance issues, such as audits, financial reporting, and laws against discrimination. These issues are critically important, but a board staffed mainly with legal and regulatory experts cannot always give management the necessary direction on strategy.[10]

The owner and managers of a small business may need the expertise of a board of directors at least as much as a large company does. To obtain some of these benefits without the expense or loss of day-to-day control, small-business leaders may seek advisers who will hold them accountable for their goals and performance. Some owners set up a board of advisers, such as owners of

In today's large corporations, most boards of directors have between 9 and 13 directors. Boards are relying more on outside directors, including retired chief executive and chief financial officers.[11]



Two respected top executives, Bill Gates (left) of Microsoft and Brad Anderson (right) of Best Buy, discuss the Xbox 360 at the grand opening of the store in Bellevue, Washington.

noncompeting companies, retired executives, and perhaps their banker or accountant. Others hire a business consultant or coach, and they have regular meetings at which they discuss progress toward goals. Owners might even take on a partner who has more skills or experience in an area where the owner is relatively weak. Business development coach Jack Tester advocates such efforts based on his own experience, which has taught him that he works harder when he knows someone is watching and will hold him accountable.[12]

Chief Executive Officer The authority officially vested in the board of directors is assigned to a chief executive officer (CEO), who occupies the top of the organizational pyramid. The CEO is personally accountable to the board and to the owners for the organization's performance.

In some corporations, one person holds all three positions of CEO, chair of the board of directors, and president.[13] More commonly, however, one person holds two of those positions, with the CEO serving also as either the chair of the board or the president of the organization. When the CEO is president, the chair may be honorary and may do little more than conduct meetings. In other cases, the chair may be the CEO and the president is second in command.

In recent years the trend has been to separate the position of CEO and chairman of the board. Sometimes this change is related to improved corporate governance; board oversight is easier when the CEO is not quite as dominant a figure. In other cases, the board has acted to reduce an unpopular CEO's power or to help prepare for a successor to the CEO.

Top Management Team Increasingly, CEOs share their authority with other key members of the top management team. Top management teams typically are composed of the CEO, president, chief operating officer, chief financial officer, and other key executives. Rather than make critical decisions on their own, CEOs at companies such as Shell, Honeywell, and Merck regularly meet with their top management teams to make decisions as a unit.[14]

Hierarchical Levels

In Chapter 1, we discussed the three broad levels of the organizational pyramid, commonly called the **hierarchy.** The CEO occupies the top position and is the senior member of top management. The top managerial level also includes presidents and vice presidents. They are the strategic managers in charge of the entire organization.

hierarchy

The authority levels of the organizational pyramid.

corporate governance

The role of a corporation's executive staff and board of directors in ensuring that the firm's activities meet the goals of the firm's stakeholders.

The key responsibilities at this top level include **corporate governance**—a term describing the oversight of the firm by its executive staff and board of directors. In recent years, as a result of corporate scandals and extremely generous executive-pay packages, the public's trust in corporate governance has eroded significantly. Some firms, including Enron and WorldCom, went bankrupt as a result of executive or board action or inaction, with enormous hardship to employees, pension holders, and investors. As we mentioned in Chapter 5, Congress responded by passing the Sarbanes-Oxley Act, which, along with requirements by the Securities and Exchange

Commission, imposed much tighter corporate governance rules. For example, company CEOs and CFOs (chief financial officers) now have to personally certify the accuracy of their firm's financial statements. The "From the Pages of *BusinessWeek*" feature describes how the Sarbanes-Oxley Act has made the role of directors more challenging.

The second broad level of the organization is middle management. At this level, managers are in charge of plants or departments. The lowest level is made up of lower management and workers. It includes office managers, sales managers, supervisors, and other first-line managers, as well as the employees who report directly to them. This level is also called the *operational level* of the organization.

A structure with fewer horizontal layers saves time and money.

Board of Hard Knocks

FROM THE PAGES OF BusinessWeek

A new era for directors dawned with the passage of the Sarbanes-Oxley Act of 2002. Then board members were hit with the frightening prospect of real financial liability in a smattering of lawsuits that followed the corporate crime wave. Now the heat on directors is growing more intense. Their reputations are increasingly at risk when the companies they watch over are tainted by scandal. Their judgment is being questioned by activist shareholders outraged by sky-high pay packages. And investors and regulators are subjecting their actions to higher scrutiny. Long gone are the days when a director could get away with a quick rubber-stamp of a CEO's plans.

The new dynamic has played out in recent board dramas involving Home Depot, Hewlett-Packard, and Morgan Stanley, among others. If Home Depot's directors had any hope that the spotlight on them would fade in the wake of departure of ex-CEO Robert L. Nardelli on January 3, 2007, they now know better. Unhappy investors are continuing to agitate for new blood in the company's boardroom. "The culpability is not on the CEO for asking [for high pay] but the directors" for approving it, says Richard Ferlauto, director of pensions and benefits policy for the American Federation of State, County & Municipal Employees, one of the more vocal investment funds putting pressure on Home Depot's Board. "Compensation is a symptom. It flags for us a board that is unwilling to challenge a CEO."

And that just won't do. The old rules of civility that discouraged directors from asking managers tough or embarrassing questions are eroding. At the same time, board members are being forced to devote more time and energy to many of their most important duties: setting CEO compensation, overseeing the auditing of financial statements, and, when needed, investigating crises. That's the good news. The bad news is they are so busy delving into the minutiae of compliance that they don't have nearly as much time to advise corporate chieftains on strategy.

The hottest issue for boards is shaping up to be executive compensation. For the first time ever, companies are required to disclose a complete tally of everything they have promised to pay their executives, including such until now hidden or difficult-to-find items as severance, deferred pay, accumulated pension benefits, and perks worth more than $10,000. They will also have to provide an explanation of how and why they've chosen to pay executives as they do. The numbers are likely to be eye-popping. Michael S. Melbinger, a top compensation lawyer in Chicago, thinks that when all the proxies are filed, there could be 50 companies or more with CEO pay packages worth $150 million or more.

And this is, believe it or not, coming as just as big a surprise to many directors as it will be to investors. Up to now, most directors have never seen a tally for the total pay they've promised to executives. "Pay was all compartmentalized: Boards would approve a salary, a certain amount for a bonus, or a certain amount if he got fired, but no one ever added it all up," says Fred Whittlesey, the head of Compensation Venture Group.

Boards are digging deep into compensation consultant reports and questioning the logic of these packages—and even sometimes, in awkward meetings, asking CEOs and other highly paid officers for givebacks. Melbinger tells of a meeting several months ago in which he sat down with a board and the CEO and outlined his perks. The CEO had a provision in his contract that not only required the company to reimburse him for his medical coverage, deductibles, and co-pays, but also had to give him a "tax gross-up" for the payments. One of the stunned board members said, "Now, let me get this straight—not only do you not have to pay the amounts for your medical coverage that every other employee of this company has to pay, we pay your taxes on it, too?" The CEO turned bright red, recognizing how bad that was going to look on the disclosure forms. He quickly agreed to give up the perk.

It's not just compensation committee members who find the world changing. Audit committees used to meet only twice a year: once when it was time to take the audit in and once more to ratify it. Dick Swanson, chair of the audit committees of two companies, says he now holds 8 to 12 meetings a year for each committee.

Some argue that as a result of the heightened pressure, boards are getting better. "One of the reasons bad stuff went on so much in the past," says Warren L. Batts, former chairman and CEO of Tupperware Brands Corporation and now a director of Methode Electronics, "was the board wasn't organized to deal with them."

SOURCE: Excerpted from Nanette Byrnes and Jane Sasseen, "Board of Hard Knocks," *BusinessWeek*, January 22, 2007, downloaded from Business & Company Resource Center, http://galenet.galegroup.com.

An authority structure is the glue that holds these levels together. Generally, but not always, people at higher levels have the authority to make decisions and tell lower-level people what to do. For example, middle managers can give orders to first-line supervisors; first-line supervisors, in turn, direct operative-level workers.

A powerful trend for U.S. businesses over the past few decades has been to reduce the number of hierarchical layers. General Electric used to have 29 levels; today it has only a handful of layers and its hierarchical structure is basically flat. Most executives today believe that fewer layers create a more efficient, fast-acting, and cost-effective organization. This also holds true for the **subunits** of major corporations. A study of 234 branches of a financial services company found that branches with fewer layers tended to have higher operating efficiency than did branches with more layers.[15]

subunits
Subdivisions of an organization.

This trend and research might seem to suggest that hierarchy is a bad thing, but entrepreneur Joel Spolsky learned that a completely flat structure is not necessarily ideal. When Spolsky and Michael Pryor started Fog Creek Software, they decided they would empower employees by having everyone report to the two owners. The system worked fine for a few years until Fog Creek grew to 17 full-time employees. At that size, the company was no longer one small happy family; employees had concerns and were finding it difficult to approach the partners and set up three-way meetings with them. So Spolsky and Pryor tapped two of the employees to serve as leaders of programming teams. Employees found it easier to talk to their team leader, and Spolsky concludes that this layer of "middle management" is helping his company run more smoothly.[16]

LO 4

Span of Control

The number of people under a manager is an important feature of an organization's structure. The number of subordinates who report directly to an executive or supervisor is called the **span of control.** The implications of differences in the span of control for the shape of an organization are straightforward. Holding size constant, narrow spans build a *tall* organization that has many reporting levels. Wide spans create a *flat* organization with fewer reporting levels. The span of control can be too narrow or too wide. The optimal span of control maximizes effectiveness because it is

span of control
The number of subordinates who report directly to an executive or supervisor.

(1) narrow enough to permit managers to maintain control over subordinates but (2) not so narrow that it leads to overcontrol and an excessive number of managers who oversee a small number of subordinates.

What is the optimal number of subordinates? Five, according to Napoleon Bonaparte.[17] Some managers today still consider five a good number. At one Japanese bank, in contrast, several hundred branch managers report to the same boss.

Actually, the optimal span of control depends on a number of factors. The span should be wider when (1) the work is clearly defined and unambiguous, (2) subordinates are highly trained and have access to information, (3) the manager is highly capable and supportive, (4) jobs are similar and performance measures are comparable, and (5) subordinates prefer autonomy to close supervisory control. If the opposite conditions exist, a narrow span of control may be more appropriate.[18]

Delegation

As we look at organizations and recognize that authority is spread out over various levels and spans of control, the issue of delegation becomes paramount. **Delegation** is the assignment of authority and responsibility to a subordinate at a lower level. It often requires that the subordinate report back to his or her boss about how effectively the assignment was carried out. Delegation is perhaps the most fundamental feature of management, because it entails getting work done through others. Thus, delegation is important at all hierarchical levels. The process can occur between any two individuals in any type of structure with regard to any task.

delegation

The assignment of new or additional responsibilities to a subordinate.

Some managers are comfortable fully delegating an assignment to subordinates; others are not. Consider the differences between these two office managers and the ways they gave out the same assignment in the following example. Are both of these examples of delegation?

Manager A: "Call Tom Burton at Nittany Office Equipment. Ask him to give you the price list on an upgrade for our personal computers. I want to move up to a Core 2 Duo processor with 4 gigs of RAM and at least a 500-gigabyte hard drive. Ask them to give you a demonstration of the Vista operating system and Microsoft Office Communication Services (OCS). I want to be able to establish collaboration capability for the entire group. Invite Cochran and Snow to the demonstration, and let them try it out. Have them write up a summary of their needs and the potential applications they see for the new systems. Then prepare me a report with the costs and specifications of the upgrade for the entire department. Oh, yes, be sure to ask for information on service costs."

Manager B: "I'd like to do something about our personal computer system. I've been getting some complaints that the current systems are too slow, can't run current software, and don't allow for networking. Could you evaluate our options and give me a recommendation on what we should do? Our budget is around $2,500 per person, but I'd like to stay under that if we can. Feel free to talk to some of the managers to get their input, but we need to have this done as soon as possible."

Responsibility, Authority, and Accountability

When delegating work, it is helpful to keep in mind the important distinctions among the concepts of authority, responsibility, and accountability. **Responsibility** means that a person is assigned a task that he or she is supposed to carry out. When delegating work responsibilities, the manager also should delegate to the subordinate enough authority to get the job done. *Authority*, recall, means that the person has the power and the right to make decisions, give orders, draw on resources, and do whatever else is necessary to fulfill the responsibility. Ironically, it is quite common for people to have more responsibility than authority; they must perform as well as they can through informal influence

responsibility

The assignment of a task that an employee is supposed to carry out.

tactics instead of relying purely on authority. More will be said about informal power and how to use it in Chapter 12.

accountability

The expectation that employees will perform a job, take corrective action when necessary, and report upward on the status and quality of their performance.

As the manager delegates responsibilities, subordinates are held accountable for achieving results. **Accountability** means that the subordinate's manager has the right to expect the subordinate to perform the job, and the right to take corrective action if the subordinate fails to do so. The subordinate must report upward on the status and quality of his or her performance of the task.

However, the ultimate responsibility—accountability to higher-ups—lies with the manager doing the delegating. Managers remain responsible and accountable not only for their own actions but also for the actions of their subordinates. Managers should not resort to delegation to others as a means of escaping their own responsibilities. In many cases, however, managers refuse to accept responsibility for subordinates' actions. Managers often "pass the buck" or take other evasive action to ensure they are not held accountable for mistakes.[19] Ideally, however, empowering employees to make decisions or take action results in an increase in employee responsibility.

LO 5

Advantages of Delegation Delegating work offers important advantages, particularly when it is done effectively. Effective delegation leverages the manager's energy and talent and those of his or her subordinates. It allows managers to accomplish much more than they would be able to do on their own. Conversely, lack of delegation, or ineffective delegation, sharply reduces what a manager can achieve. The manager also saves one of his or her most valuable assets—time—by giving some of his or her responsibility to somebody else. He or she is then free to devote energy to important, higher-level activities such as planning, setting objectives, and monitoring performance.

Effective delegation raises the quality of subordinates and the service they provide to customers or coworkers.

Another very important advantage of delegation is that it helps develop effective subordinates. Look again at the different ways the two office managers gave out the same assignment. The approach that is more likely to empower subordinates and help them develop will be obvious to you. (You may also quickly conclude which of the two managers you would prefer to work for.) Delegation essentially gives the subordinate a more important job. The subordinate acquires an opportunity to develop new skills and to demonstrate potential for additional responsibilities and perhaps promotion. In essence, the subordinate receives a vital form of on-the-job training that could pay off in the future. In addition, there is evidence that, at least for some employees, delegation promotes a sense of being an important, contributing member of the organization, so these employees tend to feel a stronger commitment, perform their tasks better, and engage in more innovation.[20]

Through delegation, the organization also receives payoffs. Allowing managers to devote more time to important managerial functions while lower-level employees carry

However, imagine delegation taken to the extreme—allowing managers to institute takeovers of other companies. That's exactly what Illinois Tool Works has done. ITW has built a reputation on its ability to acquire smaller firms, quickly and efficiently. Now a conglomerate with 750 business units worldwide, ITW was originally a toolmaker. Its products still tend to be small and industrial—screws, auto parts, the plastic rings that hold a six-pack of soda, and the like. But ITW makes much of its money by buying and selling smaller firms. That's where managers like John Stevens, a mechanical engineer, come in.

Stevens, and many others like him, are being trained in the art of acquisition. CEO David Speer believes that employees like this are the perfect choice for the task because they know and understand the business they are in. So ITW executives are now giving two-day acquisition workshops for business-unit managers, then sending them out to buy. "We weren't necessarily banging on doors as we should have," explains Speer. "It was a question of getting people trained and re-energized."[21]

out assignments means that jobs are done more efficiently and cost effectively. In addition, as subordinates develop and grow in their own jobs, their ability to contribute to the organization increases as well.

How Should Managers Delegate? To achieve the advantages we have just discussed, delegation must be done properly. As Figure 8.2 shows, effective delegation proceeds through several steps.[22]

The first step in the delegation process, defining the goal, requires the manager to have a clear understanding of the outcome he or she wants. Then the manager should select a person who is capable of performing the task. Delegation is especially beneficial if you can identify an employee who would benefit from developing skills through the experience of taking on the additional responsibility.

The person who gets the assignment should be given the authority, time, and resources to carry out the task successfully. The required resources usually involve people, money, and equipment, but often they may also involve critical information that will put the assignment in context. ("Review every cost item carefully, because if we're the low bidder, we'll get the account.") Throughout the delegation process, the manager and the subordinate must work together and communicate about the project. The manager should know the subordinate's ideas at the beginning and inquire about progress or problems at periodic meetings and review sessions. Thus, even though the subordinate performs the assignment, the manager is available and aware of its current status. These checkups also provide an important opportunity to offer encouragement and praise.

Some tasks, such as disciplining subordinates and conducting performance reviews, should not be delegated. But when managers err, it usually is because they delegated too little rather than too much. The manager who wants to learn how to delegate more effectively should remember this distinction: If you are not delegating, you are merely *doing* things; but the more you delegate, the more you are truly *building* and *managing* an organization.[23]

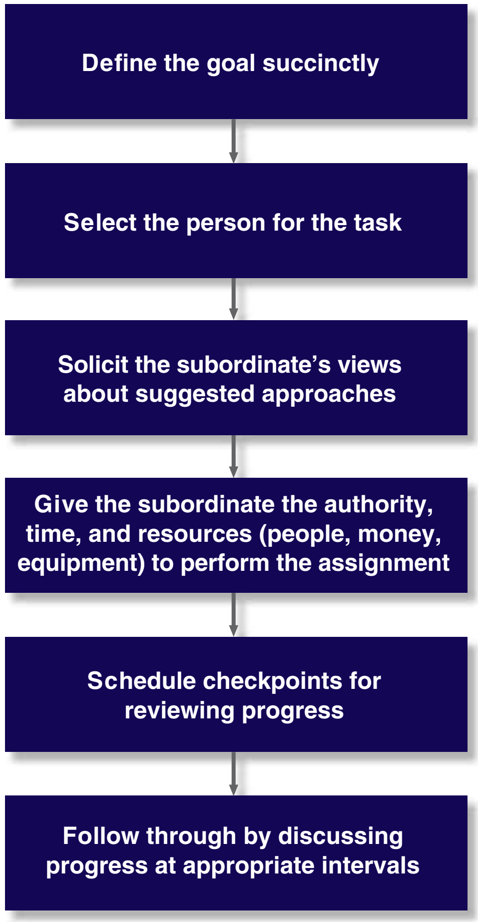


FIGURE 8.2
The Steps in Effective Delegation

Decentralization

LO 6

centralized organization
An organization in which high-level executives make most decisions and pass them down to lower levels for implementation.

decentralized organization
An organization in which lower-level managers make important decisions.

The delegation of responsibility and authority *decentralizes* decision making. In a **centralized organization,** important decisions usually are made at the top. In **decentralized organizations,** more decisions are made at lower levels. Ideally, decision making occurs at the level of the people who are most directly affected and have the most intimate knowledge about the problem. This is particularly important when the business environment is fast-changing and decisions must be made quickly and well. Balanced against these criteria, centralization may be valuable when departments have different priorities or conflicting goals, which need to be mediated by top management. For example, when researchers modeled the search for new ideas in organizations, they found that the worst performance occurred in decentralized organizations where the search for new ideas was carried out at lower levels, because ideas were presented for approval only if they benefited the particular department doing the search.[24]

Sometimes organizations change their degree of centralization, depending on the particular challenges they face. Tougher times often cause senior managements to take charge, whereas in times of rapid growth, decisions are pushed farther down the chain of command. For example, in the 1980s Harley-Davidson was in great financial difficulty and faced tough competition from Honda, Suzuki, and Yamaha. It needed strong, centralized leadership that could react quickly and decisively to survive. But once the crisis was past, this approach wasn't as effective in gaining the commitment

The traditional hierarchy at Harley-Davidson has been replaced with collaborative leadership, based on the assumption that all employees can make decisions and take responsibility for meeting the organization's goals. Why would this be an effective form of decision making?

and energy of employees, who were the ones building the products and the relationships with customers. Harley-Davidson made the transition to a flatter, more empowered organization that decentralizes decision making. Today, the traditional hierarchy at the company has been replaced with collaborative leadership, based on the assumption that all employees can make decisions and take responsibility for meeting the organization's goals.[25]

Most American executives today understand the advantages of pushing decision-making authority down to the point of the action. The level that deals directly with problems and opportunities has the most relevant information and can best foresee the consequences of decisions. Executives also see how the decentralized approach allows people to take timelier action.[26]

The bottom line
SPEED
Decentralization often speeds decision making.

When times get tough, people tend to want to seize greater control over their situation, and if you're a senior executive, a centralized structure often seems to be the safest course. Nevertheless, executives at Johnson & Johnson have been sticking to decentralization, even during the recent severe recession.

Johnson & Johnson, best known for brands like Band-Aid bandages and Splenda artificial sweetener, operates 250 business units in 57 countries. Besides the famous consumer brands, it also makes medical devices and pharmaceuticals—all products linked to health care. With so many product lines in so many geographic areas, executives at the company's New Jersey headquarters couldn't possibly make all the right decisions. So within the three broad divisions of consumer products, medical devices and diagnostics, and pharmaceuticals, line managers are charged with running business units specializing in particular products and regions.

Not only does this arrangement push decisions closer to the customers, but it also helps J&J develop a huge pool of management talent. Managers can improve their skills while serving a small market segment and take on additional responsibilities as they learn. The company's chief executive officer and chief financial officer both built careers at J&J by working in various businesses to develop broad skills. Similarly, Sheri McCoy, who leads the pharmaceuticals division, held various positions in devices and diagnostics. That kind of experience is hard to get in a company that is smaller or more centralized, so J&J is using its organizational structure as a source of competitive advantage.[27]

According to Raj Gupta, president of Environmental Systems Design (ESD), the engineering design firm decentralized as a necessary response to growth. A traditional "command and control" approach to management worked fine when the company was starting out, but now with 240 engineering and design professionals designing for diverse clients working on commercial, transportation, residential, manufacturing, energy, and other projects, it would be impossible for a few people at the top to dictate solutions. In fact, it wouldn't even be desirable, given the diverse expertise of its employees. So instead of grouping staff into functional departments such as sustainable design or electrical work, ESD has a structure in which studios of professionals serve particular clients, making decisions to meet their specialized needs.[28]

The Horizontal Structure

LO 7

Up to this point, we've talked primarily about vertical aspects of organization structure. Issues of authority, span of control, delegation, and decentralization are important because they give us an idea of how managers and employees relate to one another at different levels. Yet, separating discussion of vertical differentiation from horizontal differentiation is a bit artificial because the elements work simultaneously.

As the tasks of organizations become increasingly complex, the organization inevitably must be subdivided—that is, *departmentalized*—into smaller units or departments. One of the first places this can be seen is in the distinction between line and staff departments. **Line departments** are those that have responsibility for the principal activities of the firm. Line units deal directly with the organization's primary goods or services; they make things, sell things, or provide customer service. At General Motors, for example, line departments include product design, fabrication, assembly, distribution, and the like. Line managers typically have much authority and power in the organization. They have the ultimate responsibility for making major operating decisions. They also are accountable for the bottom-line results of their decisions.

line departments
Units that deal directly with the organization's primary goods and services.

Staff departments are those that provide specialized or professional skills that support line departments. They include research, legal, accounting, public relations, and human resources departments. Each of these specialized units often has its own vice president, and some are vested with a great deal of authority, as when accounting or finance groups approve and monitor budgetary activities.

staff departments
Units that support line departments.

In traditionally structured organizations, conflicts could arise between line and staff departments. One reason was that career paths and success in many staff functions have depended on being an expert in that particular functional area, while success in line functions is based more on knowing the organization's industry. Thus, while line managers might be eager to pursue new products and customers, staff managers might seem to stifle these ideas with a focus on requirements and procedures. Line managers might seem more willing to take risks for the sake of growth, while staff managers seem more focused on protecting the company from risks. But in today's organizations, staff units tend to be less focused on monitoring and controlling performance and more interested in moving toward a new role focused on strategic support and expert advice.[29] For example, human resource managers have broadened their focus from merely creating procedures that meet legal requirements to helping organizations plan for, recruit, develop, and keep the kinds of employees who will give the organization a long-term competitive advantage. This type of strategic thinking not only makes staff managers more valuable to their organizations but also can reduce the conflict between line and staff departments.

As organizations divide work into different units, we can detect patterns in the way departments are clustered and arranged. The three basic approaches to **departmentalization** are functional, divisional, and matrix. We will talk about each and highlight some of their similarities and differences.

departmentalization
Subdividing an organization into smaller subunits.

The Functional Organization

In a **functional organization,** jobs (and departments) are specialized and grouped according to *business functions* and the skills they require: production, marketing, human resources, research and development, finance, accounting, and so forth. Figure 8.3 illustrates a basic functional organization chart.

functional organization
Departmentalization around specialized activities such as production, marketing, and human resources.

Functional departmentalization is common in both large and small organizations. Large companies may organize along several different functional groupings, including groupings unique to their businesses. For example, Carmike Cinema, which operates

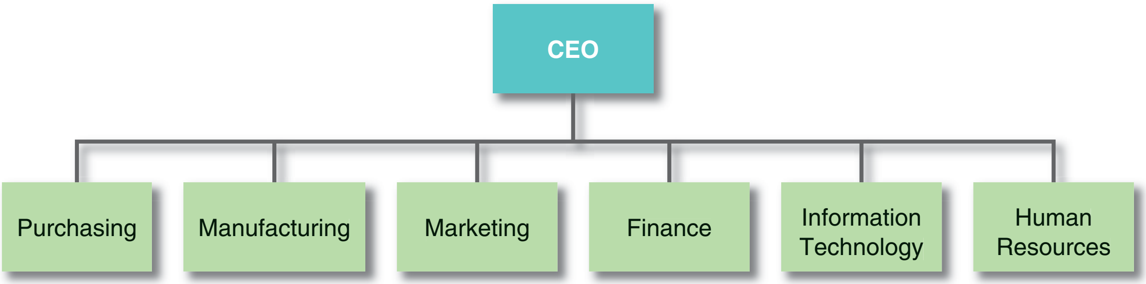


FIGURE 8.3
The Functional Organization

more than 2,400 screens in 289 theaters in 37 states, has vice presidents of finance, concessions, film, and entertainment and digital cinema, as well as a general manager of theater operations.

The traditional functional approach to departmentalization has a number of potential advantages for an organization:[30]

$ The bottom line
COST
When like functions are grouped, savings often result.

1. *Economies of scale can be realized.* When people with similar skills are grouped, more efficient equipment can be purchased, and discounts for large purchases can be used.
2. *Monitoring of the environment* is more effective. Each functional group is more closely attuned to developments in its own field and therefore can adapt more readily.
3. *Performance standards* are better maintained. People with similar training and interests may develop a shared concern for performance in their jobs.
4. People have greater opportunity for *specialized training* and *in-depth skill development.*
5. Technical specialists are relatively *free of administrative work.*
6. *Decision making* and *lines of communication* are simple and clearly understood.

The functional form does have disadvantages, however. People may care more about their own function than about the company as a whole, and their attention to functional tasks may make them lose focus on overall product quality and customer satisfaction. Managers develop functional expertise but do not acquire knowledge of the other areas of the business; they become specialists, but not generalists. Between functions, conflicts arise, and communication and coordination fall off. In short, while functional differentiation may exist, *functional integration* may not.

As a consequence, the functional structure may be most appropriate in rather simple, stable environments. If the organization becomes fragmented (or *dis*integrated), it may have difficulty developing and bringing new products to market and responding quickly to customer demands and other changes. Particularly when companies are growing and business environments are changing, organizations need to integrate work areas more effectively so that they can be more flexible and responsive. Other forms of departmentalization can be more flexible and responsive than the functional structure.

One organization that has capitalized on the benefits of integrating functions is pharmaceutical firm AstraZeneca. Developing and bringing a new drug to market is a complex procedure, particularly for a company with global reach, so AstraZeneca brought employees from different functions and regions together on product teams. For example, when the company was working on approvals for its anticholesterol drug, Crestor, it set up a global product team, with both technical research and commercial heads to oversee the drug's development and marketing. Communication among the team members not only helped the drug through its clinical trials in various countries but also allowed the marketers who would be responsible for disseminating information to physicians and patients learn about the drug early in its development.[31]

Demands for total quality, customer service, innovation, and speed have made clear the shortcomings of the functional form for some firms. Functional organizations are highly differentiated and create barriers to coordination across functions. Cross-functional coordination is essential for total quality, customer service, innovations, and speed. The functional organization will not disappear, in part because functional specialists will always be needed, but functional managers will make fewer decisions. The more important units will be cross-functional teams that have integrative responsibilities for products, processes, or customers.[32]

The Divisional Organization

The discussion of a functional structure's weaknesses leads us to the **divisional organization.** As organizations grow and become increasingly diversified, they find that functional departments have difficulty managing a wide variety of products, customers, and geographic regions. In this case, organizations may restructure to group all functions into a single division and duplicate each of the functions across all the divisions. In the divisional organization chart in Figure 8.4, Division A has its own operations, marketing, and finance department, Division B has its own operations, marketing, and finance department, and so on. In this structure, separate divisions may act almost as separate businesses or profit centers and work autonomously to accomplish the goals of the entire enterprise. Table 8.1 presents examples of how the same tasks would be organized under functional and divisional structures.

divisional organization

Departmentalization that groups units around products, customers, or geographic regions.

Organizations create a divisional structure in several ways. It can be created around products, customers, or geographic regions. Each of these is described in the following sections.

Product Divisions

In the product organization, all functions that contribute to a given product are organized under one manager. In the product organization, managers in charge of functions for a particular product report to a product manager. Johnson & Johnson is one example of this form. J&J has more than 250 independent company divisions, many of which are responsible for particular product lines. For example, its subsidiary Cordis Corporation has divisions that develop and sell products for treating vascular diseases, while McNeil-PPC's products include Listerine and Plax mouthwashes.

The product approach to departmentalization offers a number of advantages:[33]

1. *Information needs are managed more easily.* Less information is required, because people work closely on one product and need not worry about other products.

TABLE 8.1

Examples of Functional and Divisional Organization

Functional Organization	Divisional Organization
A central purchasing department.	Each division has its own purchasing unit.
Separate companywide marketing, production, design, and engineering departments.	Each product group has experts in marketing, design, production, and engineering.
A central-city health department.	The school district and the prison have their own health units.
Plantwide inspection, maintenance, and supply departments.	Production Team Y does its own inspection, maintenance, and supply.
A university statistics department teaches statistics for the entire university.	Each department hires statisticians to teach its own students.

SOURCE: George Strauss and Leonard R. Sayles, *Strauss and Sayles's Behavioral Strategies for Managers,* © 1980, p. 221. Reprinted by permission of Prentice Hall, Inc., Englewood Cliffs, New Jersey.

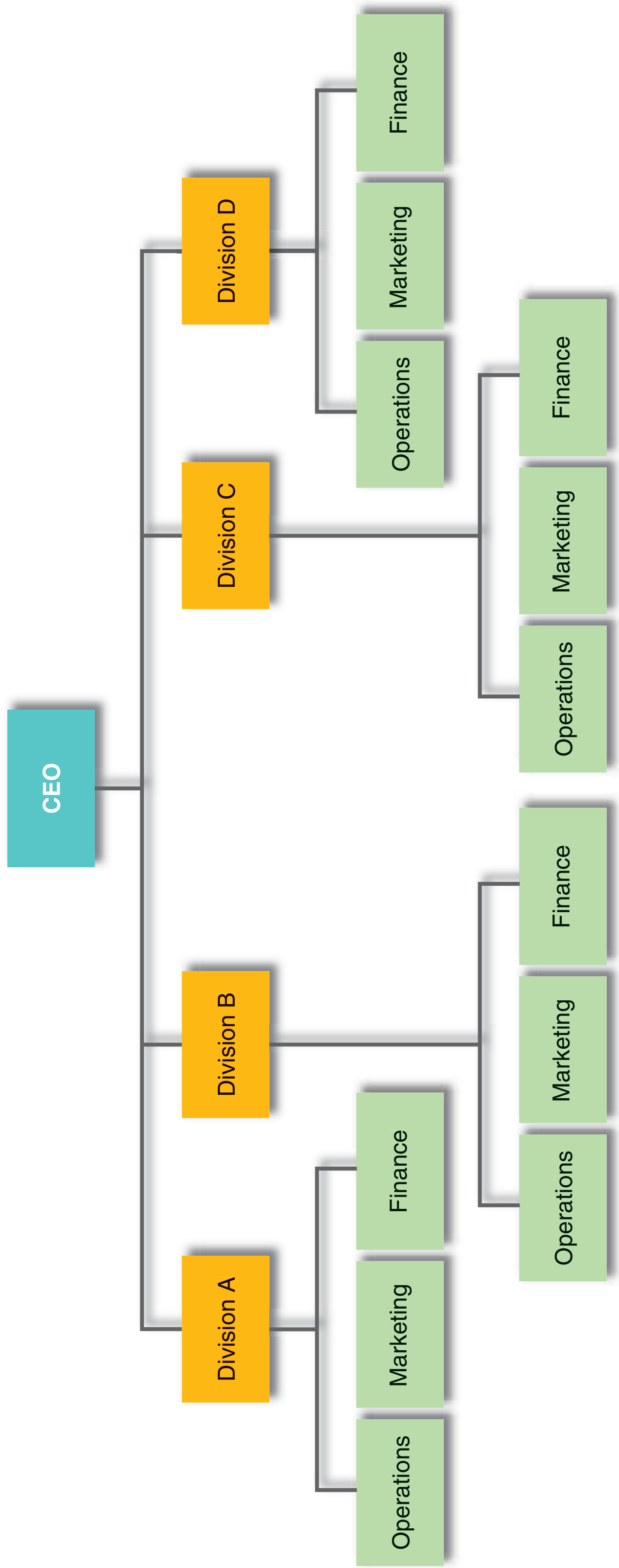


FIGURE 8.4
The Divisional Organization

2. *People have a full-time commitment to a particular product line.* They develop a greater awareness of how their jobs fit into the broader scheme.
3. *Task responsibilities are clear.* When things go wrong in a functional organization, functional managers can pass the buck ("That other department is messing up, making it harder for us to do our jobs"). In a product structure, managers are more independent and accountable because they usually have the resources they need to perform their tasks. Also, the performances of different divisions can be compared by contrasting their profits and other measures.
4. *People receive broader training.* General managers develop a wide variety of skills, and they learn to be judged by results. Many top executives received crucial early experience in product structures.

Because the product structure is more flexible than the functional structure, it is best suited for unstable environments, when an ability to adapt rapidly to change is important. But the product structure also has disadvantages. It is difficult to coordinate across product lines and divisions. And although managers learn to become generalists, they may not acquire the depth of functional expertise that develops in the functional structure.

Furthermore, functions are not centralized at headquarters, where they are done for all product lines or divisions. Such duplication of effort is expensive. Also, decision making is decentralized in this structure, and so top management can lose some control over decisions made in the divisions. Proper management of all the issues surrounding decentralization and delegation, as discussed earlier, is essential for this structure to be effective.[34]

Customer and Geographic Divisions Some companies build divisions around groups of customers or around different geographic areas. Pfizer recently replaced divisions based on location with three based on customer groups: primary care, specialty care, and emerging markets. The pharmaceutical company hopes that this structure will make the company more responsive to the needs of doctors and their patients in each group.[35] Similarly, a hospital may organize its services around child, adult, psychiatric, and emergency cases. Bank loan departments commonly have separate groups handling consumer and business needs.

In contrast to customers, divisions can be structured around geographic regions. Sears, for example, was a pioneer in creating *geographic divisions.* Geographic distinctions include district, territory, region, and country. Macy's Group, formerly Federated Department Stores, has geographic divisions for its operations serving particular states or regions of the United States: Macy's East, Macy's Florida, Macy's Midwest, Macy's North, Macy's Northwest, Macy's South, and Macy's West, as well as Macys.com for online shoppers. Executives at Ford Motor Company include the CEO of Ford of Europe, the CEO of Ford of Mexico, and the president of Ford Motor (China) Ltd.

Customer and geographic divisions often serve customers faster.

The primary advantage of both the product and customer/regional approaches to departmentalization is the ability to focus on customer needs and provide faster, better service. But again, duplication of activities across many customer groups and geographic areas is expensive.

Establishing customer divisions improved strategic decisions at Det Norske Veritas (DNV), a Norwegian firm that provides services related to risk management. Initially, the company's management assumed that any collaboration across divisions would build sales and profits, but the first effort flopped. Management tried combining the efforts of two business units: its consulting group and a unit that inspects food companies' production chains. The idea was that the combined groups could help food companies reduce risks in their supply chains. However, the group members were slow to share information about customers, thought that time spent on the joint project undermined the work of their own division (which was how their performance was measured), and engaged in conflicts that caused project delays and cost overruns.

Disappointed with these early results, DNV's executives evaluated their decision making and realized they were assembling a collaboration project without first prioritizing the market opportunities, identifying the impact on each division's profits, and rewarding employees for collaborating. To improve future decisions, they restructured the company into business units serving particular markets. With their market knowledge, each unit then investigated where collaboration would make sense to serve its market's needs. Because the whole unit would benefit, it was now easier to tie rewards to collaboration. One success came from the business unit serving the maritime industry. Managers determined that the information technology specialists in this unit could collaborate with the risk management group to help shipping companies manage the risk of their computer systems' malfunctioning. This time, customers *and* employees were enthusiastic.[36]

LO 8

The Matrix Organization

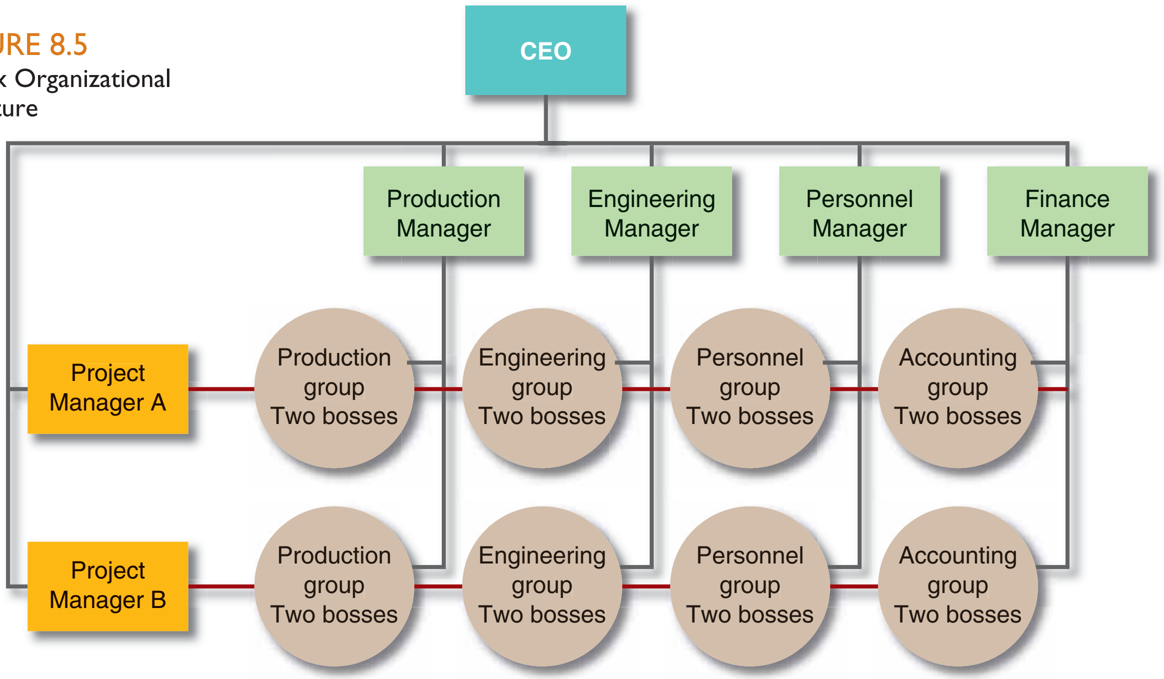
matrix organization

An organization composed of dual reporting relationships in which some managers report to two superiors—a functional manager and a divisional manager.

A **matrix organization** is a hybrid form of organization in which functional and divisional forms overlap. Managers and staff personnel report to two bosses—a functional manager and a divisional manager. Thus, matrix organizations have a dual rather than a single line of command. In Figure 8.5, for example, each project manager draws employees from each functional area to form a group for the project. The employees working on those projects report to the individual project manager as well as to the manager of their functional area.

A good example of the matrix structure can be found at Time Inc., the top magazine publisher in the United States and United Kingdom. At major Time Inc. titles such as *Time*, *Sports Illustrated*, and *People*, production managers who are responsible for getting the magazines printed report both to the individual publishers and editors of each title *and* to a senior corporate executive in charge of production. At the corporate level, Time Inc. achieves enormous economies of scale by buying paper and printing in bulk and making sure production activities in the company as a whole are

FIGURE 8.5
Matrix Organizational Structure



coordinated. At the same time, production managers working at each title make sure the different needs and schedules of their individual magazines are being met. Similar matrix arrangements are in place for other key managers, such as circulation and finance. In this way, the company attempts to gain the benefits of both the divisional and functional organization structure.

The matrix form originated in the aerospace industry, first with TRW in 1959 and then with NASA. Applications now occur in hospitals and health care agencies, entrepreneurial organizations, government laboratories, financial institutions, and multinational corporations.[37] Other companies that have used or currently use the matrix form include IBM, Boeing, Xerox, Shell Oil, Texas Instruments, Bechtel, and Dow Corning.

Organizations with highly specialized staff, such as NASA astronaut Susan J. Helms (left), shown here with Russian cosmonaut Yury V. Usachev in the International Space Station, typically use a matrix structure.

Pros and Cons of the Matrix Form Like other organization structures, the matrix has both strengths and weaknesses. Table 8.2 summarizes the advantages of using a matrix structure. The major potential advantage is a higher degree of flexibility and adaptability.

Table 8.3 summarizes the potential shortcomings of the matrix form. Many of the disadvantages stem from the matrix's inherent violation of the **unity-of-command principle,** which states that a person should have only one boss. Reporting to two superiors can create confusion and a difficult interpersonal situation, unless steps are taken to prevent these problems from arising.

unity-of-command principle

A structure in which each worker reports to one boss, who in turn reports to one boss.

Matrix Survival Skills The value of collaboration is particularly pronounced in a matrix organization. For example, in the kind of structure illustrated in Figure 8.5, project group members may not be permanently assigned to the project manager. They will return to their functional area once the project has been completed. For this group to work effectively, the traditional command-and-control management style

TABLE 8.2
Advantages of the Matrix Design

- Decision making is decentralized to a level where information is processed properly and relevant knowledge is applied.
- Extensive communications networks help process large amounts of information.
- With decisions delegated to appropriate levels, higher management levels are not overloaded with operational decisions.
- Resource utilization is efficient because key resources are shared across several important programs or products at the same time.
- Employees learn the collaborative skills needed to function in an environment characterized by frequent meetings and more informal interactions.
- Dual career ladders are elaborated as more career options become available on both sides of the organization.

SOURCE: H. Kolodny, "Managing in a Matrix," *Business Horizons,* March–April 1981, pp. 17–24.

TABLE 8.3
Disadvantages of the Matrix Design

- Confusion can arise because people do not have a single superior to whom they feel primary responsibility.
- The design encourages managers who share subordinates to jockey for power.
- The mistaken belief can arise that matrix management is the same thing as group decision making—in other words, everyone must be consulted for every decision.
- Too much democracy can lead to not enough action.

SOURCE: H. Kolodny, "Managing in a Matrix," *Business Horizons,* March–April 1981, pp. 17–24.

may not be the most appropriate; it might gain *compliance* from group members, but not their full *commitment*, making it harder to achieve the project's goals. Also, as the matrix organization draws on members of functional groups to tap their expertise, it is very important to get their full contribution. A collaborative process, in which the manager and participants develop a shared sense of ownership for the work they are doing, will generate better ideas, participation, and commitment to the project and its outcomes.

To a large degree, problems can be avoided if the key managers in the matrix learn the behavioral skills demanded in the matrix structure.[38] These skills vary depending on the job in the four-person diamond structure shown in Figure 8.6.

The *top executive*, who heads the matrix, must learn to balance power and emphasis between the product and functional orientations. *Product or division managers* and *functional managers* must learn to collaborate and manage their conflicts constructively. Finally, the *two-boss managers* or employees at the bottom of the diamond must learn how to be responsible to two superiors. This means prioritizing multiple demands and sometimes even reconciling conflicting orders. Some people function poorly under this ambiguous, conflictual circumstance; sometimes this signals the end of their careers with the company. Others learn to be proactive, communicate effectively with both superiors, rise above the difficulties, and manage these work relationships constructively.

$ The matrix structure can speed decisions and cut costs.

The Matrix Form Today The popularity of the matrix form waned during the late 1980s, when many companies had difficulty implementing it. But recently, it has come back strong. Reasons for this resurgence include pressures to consolidate costs and be faster to market, creating a need for better coordination across functions in the business units, and a need for coordination across countries for firms with global business strategies. Many of the challenges created by the matrix are particularly acute in an international context, mainly because of the distances involved and the differences in local markets.[39]

The key to managing today's matrix is not the formal structure itself but the realization that the matrix is a *process*. Managers who have appropriately adopted the matrix structure because of the complexity of the challenges they confront, but have had trouble implementing it, often find that they haven't changed the employee and managerial relationships within their organizations in ways that make the matrix

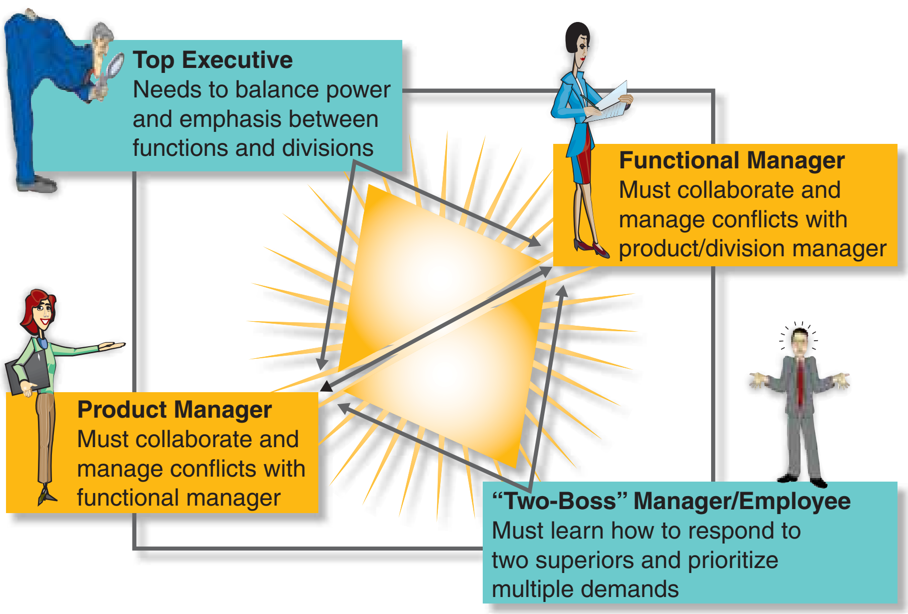


FIGURE 8.6
The Matrix Diamond

effective. It is not enough to create a flexible organization merely by changing its structure. To create an environment that allows information to flow freely throughout the organization, managers must also attend to the norms, values, and attitudes that shape how people within their organizations behave.[40] We will address these issues in the next chapter and in Part Four of the book, which focuses on how to lead and manage people.

The Network Organization

So far, the structures we have been discussing are variations of the traditional, hierarchical organization, within which all the business functions of the firm are performed. In contrast, the **network organization** is a collection of independent, mostly single-function firms that collaborate to produce a good or service. As depicted in Figure 8.7, the network organization describes not one organization but the web of relationships among many firms. Network organizations are flexible arrangements among designers, suppliers, producers, distributors, and customers where each firm is able to pursue its own distinctive competence, yet work effectively with other members of the network. Often members of the network communicate electronically and share information to be able to respond quickly to customer demands. In effect, the normal boundary of the organization becomes blurred or porous, as managers within the organization interact closely with network members outside it. The network as a whole, then, can display the technical specialization of the functional structure, the market responsiveness of the product structure, and the balance and flexibility of the matrix.[41]

network organization

A collection of independent, mostly single-function firms that collaborate on a good or service.

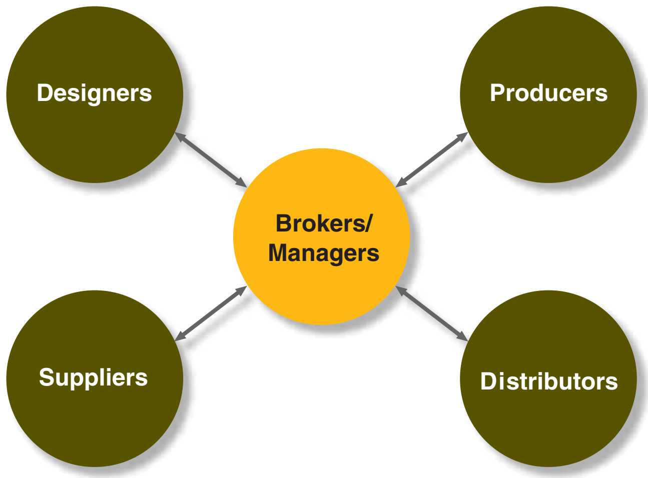
A very flexible version of the network organization is the **dynamic network**—also called the *modular* or *virtual* corporation. It is composed of temporary arrangements among members that can be assembled and reassembled to meet a changing competitive environment. The members of the network are held together by contracts that stipulate results expected (market mechanisms) rather than by hierarchy and authority. Poorly performing firms can be removed and replaced.

dynamic network

Temporary arrangements among partners that can be assembled and reassembled to adapt to the environment.

Such arrangements are common in the electronics, toy, and apparel industries, each of which creates and sells trendy products at a fast pace. Dynamic networks also are suited to organizations in which much of the work can be done independently by experts. For example, the more than 200 graphic designers affiliated with Logoworks provide design services to small-business customers looking for professional work without the overhead expense of an advertising agency. A popular Logoworks product is a $399 set of logo design ideas from three designers; the client picks his or her

Networks can improve cost, quality, service, speed, and innovation.



SOURCE: From R. Miles and C. Snow, "Organizations: New Concepts for New Forms," *California Management Review*, Spring 1986, p. 65. Copyright © 1986 by The Regents of the University of California. Reprinted from the *California Management Review*, vol. 28, no. 3.

FIGURE 8.7
A Network Organization

favorite, all the designers are paid a set fee, and the designer whose idea is chosen earns a bonus. Logoworks conducts marketing online, hires some designers, and negotiates freelance contracts with the rest.[42]

Successful networks potentially offer flexibility, innovation, quick responses to threats and opportunities, and reduced costs and risk. But for these arrangements to be successful, several things must occur:

- The firm must choose the right specialty. It must be something (good or service) that the market needs and which the firm is better at providing than other firms.
- The firm must choose collaborators that also are excellent at what they do and that provide complementary strengths.
- The firm must make certain that all parties fully understand the strategic goals of the partnership.
- Each party must be able to trust all the others with strategic information and also trust that each collaborator will deliver quality products even if the business grows quickly and makes heavy demands.

broker

A person who assembles and coordinates participants in a network.

The role of managers shifts in a network from that of command and control to more like that of a **broker.** Broker/managers serve several important boundary roles that aid network integration and coordination:

- *Designer role.* The broker serves as a network architect who envisions a set of groups or firms whose collective expertise could be focused on a particular good or service.
- *Process engineering role.* The broker serves as a *network co-operator* who takes the initiative to lay out the flow of resources and relationships and makes certain that everyone shares the same goals, standards, payments, and the like.
- *Nurturing role.* The broker serves as a network developer who nurtures and enhances the network (like team building) to make certain the relationships are healthy and mutually beneficial.[43]

Organizational Integration

LO 9

At the beginning of this chapter, we said organizations are structured around differentiation and integration. So far, our discussion has focused on *differentiation*—the way the organization is composed of different jobs and tasks, and the way they fit on an organization chart. But as organizations differentiate their structures, they also need to be concerned about *integration* and *coordination*—the way all parts of the organization will work together. Often, the more differentiated the organization, the more difficult integration may be. Because of specialization and the division of labor, different groups of managers and employees develop different orientations. Depending on whether employees are in a functional department or a divisional group, are line or staff, and so on, they will think and act in ways that are geared toward their particular work units. In short, people working in separate functions, divisions, and business units literally tend to forget about one another. When this happens, it is difficult for managers to combine all their activities into an integrated whole.

A variety of approaches are available to managers to help them make certain that interdependent units and individuals will work together to achieve a common purpose. In some situations, managers might see that employees need to work closely together to achieve joint objectives, so they build mutual trust, train employees in a common set of skills, and reward teamwork. In other situations, the organization might rely more on individuals with unique talents and ideas, so they set up flexible work arrangements and reward individual achievements to inspire the best from each individual, while encouraging individual employees to share knowledge and develop respect for one another's contributions.[44] In general, however, coordination methods include standardization, plans, and mutual adjustment.[45]

Coordination by Standardization

Banks are among the most standardized of organizations, from operating procedures through dress codes, reinforcing to their customers and employees that the organization and their dealings with it are stable and reliable.

When organizations coordinate activities by establishing routines and standard operating procedures that remain in place over time, we say that work has been standardized. **Standardization** constrains actions and integrates various units by regulating what people do. People often know how to act—and how to interact—because standard operating procedures spell out what they should do. For example, managers may establish standards for which types of computer equipment the organization will use. This simplifies the purchasing and computer-training process—everyone will be on a common platform—and makes it easier for the different parts of the organization to communicate with each other.

To improve coordination, organizations may also rely on **formalization**—the presence of rules and regulations governing how people in the organization interact. Simple, often written, policies regarding attendance, dress, and decorum, for example, may help eliminate a good deal of uncertainty at work. But an important assumption underlying both standardization and formalization is that the rules and procedures should apply to most (if not all) situations. These approaches, therefore, are most appropriate in situations that are relatively stable and unchanging. In some cases, when the work environment requires flexibility, coordination by standardization may not be very effective. Who hasn't experienced a time when rules and procedures—frequently associated with a slow bureaucracy—prevented timely action to address a problem? In these instances, we often refer to rules and regulations as "red tape."[46] As you read the "Management Close-Up: Taking Action" feature, consider how employees are likely to view the new formal innovation procedures at Whirlpool.

standardization
Establishing common routines and procedures that apply uniformly to everyone.

formalization
The presence of rules and regulations governing how people in the organization interact.

Coordination by Plan

If laying out the exact rules and procedures by which work should be integrated is difficult, organizations may provide more latitude by establishing goals and schedules for interdependent units. **Coordination by plan** does not require the same high degree of stability and routinization required for coordination by standardization. Interdependent units are free to modify and adapt their actions as long as they meet the deadlines and targets required for working with others.

In writing this textbook, for example, we (the authors) sat down with a publication team that included the editors, the marketing staff, the production group, and support staff. Together we ironed out a schedule for developing this book that covered approximately a two-year period. That development plan included dates and "deliverables" that specified what was to be accomplished and forwarded to the others in the organization. The plan allowed for a good deal of flexibility on each subunit's part, and the overall approach allowed us to work together effectively.

coordination by plan
Interdependent units are required to meet deadlines and objectives that contribute to a common goal.

Coordination by Mutual Adjustment

Ironically, the simplest and most flexible approach to coordination may just be to have interdependent parties talk to one another. **Coordination by mutual adjustment** involves feedback and discussions to jointly figure out how to approach problems and devise solutions that are agreeable to everyone. The popularity of teams today is in part due to the fact that they allow for flexible coordination; teams can operate under the principle of mutual adjustment.

But the flexibility of mutual adjustment as a coordination device does not come without some cost. Hashing out every issue takes time and may not be the most

coordination by mutual adjustment
Units interact with one another to make accommodations to achieve flexible coordination.

Management Close-Up

TAKING ACTION

Although Whirlpool's Nancy Snyder had to abandon her initial strategy of using a 75-person innovation team to vet product ideas and create new ones, she knew Whirlpool's structure could support innovation. With a doctorate in organizational behavior, Snyder recognized that although creativity is an innate human behavior, people needed training to build their skills. For that reason, she brought innovation training to Whirlpool—coursework mandated for all salaried employees and tied to their bonuses. She also established an intranet as a central place for communicating and monitoring innovation, and she made the training materials available there to hourly workers.

The training equipped the selected employees to serve as "I-mentors," who would foster new ideas within their business units. They apply their learning not only to generate ideas for new products but also to solve business problems within the company. Once the I-mentor format was in place, Snyder brought greater structure to the process. Top managers now evaluate new proposals at monthly meetings. Projects that clear initial hurdles receive an executive sponsor to shepherd them through the next stages. Software tools enable Whirlpool to track an idea's progress through the pipeline and measure it on several dimensions, even its intangible value. Managers receive concrete innovation goals, and their performance is measured. Bonuses are at risk for managers who don't hit their innovation target.

Ideas that came out of the new process include a fast-fill water dispenser built into a refrigerator's door and a portable device called a Fabric Freshener, which uses steaming and air-drying to remove wrinkles and odors from dry-clean-only garments.

After Whirlpool adopted the new system for innovation, the company's performance turned around. By 2006, the company could identify more than $2.5 billion in worldwide revenues as stemming from brand innovation.[47]

- Does the idea-generation system that Nancy Snyder set up at Whirlpool resemble the matrix organization structure? If so, how?
- Previously, new-product development at Whirlpool was centered only in its engineering and marketing departments, but CEO David Whitwam and Nancy Snyder modified that practice. How does a change in the division of labor affect organization structure?

China may be the next hub of motorcycle manufacturing. That's because the Chinese motorcycle industry has figured out how to coordinate literally hundreds of different suppliers in the design and manufacturing of motorcycles. Together, these small firms collaborate by working from rough blueprints to design, construct, and assemble components that are related to each other, then deliver them to another plant for final assembly. Because design and assembly are decentralized, suppliers can move quickly to make adjustments, try out new components, and make more changes if necessary before delivering a product for final assembly.

Using this approach, the Chinese motorcycle industry is now designing and building new motorcycles faster and less expensively than any other country in the world. In fact, the industry has been so successful that its production has quadrupled from 5 million motorcycles a year to 20 million—which gives China about 50 percent of the worldwide motorcycle market. Experts believe that this type of mass collaboration is the future of most manufacturing, whether the product is simple or complex.[48]

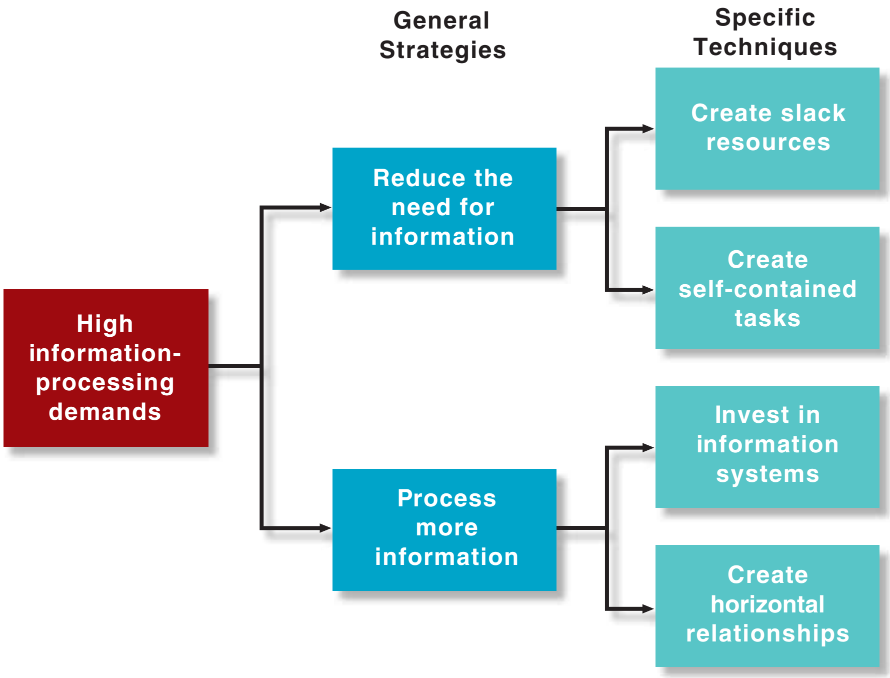


FIGURE 8.8
Managing High Information-Processing Demands

expedient approach for organizing work. Imagine how long it would take to accomplish even the most basic tasks if subunits had to talk through every situation. At the same time, mutual adjustment can be very effective when problems are novel and cannot be programmed in advance with rules, procedures, or plans. Particularly during crises, in which rules and procedures don't apply, mutual adjustment is likely to be the most effective approach to coordination.

Coordination and Communication

Today's environments tend to be complex, dynamic, and therefore uncertain. Huge amounts of information flow from the external environment to the organization and back to the environment. To cope, organizations must acquire, process, and respond to that information. Doing so has direct implications for how firms organize. To function effectively, organizations need to develop structures for processing information.

To cope with high uncertainty and heavy information demands, managers can use the two general strategies shown in Figure 8.8. First, management can act to reduce the need for information. Second, it can increase its capacity to handle more information.[49]

Information sharing is vital at the National Counterterrorism Center, shown here. Technology is used to enable the efficient and safe sharing of this information.

Option 1: Reducing the Need for Information

Managers can reduce the need for information in two ways: (a) creating slack resources and (b) creating self-contained tasks. *Slack resources* are simply extra resources on which organizations can rely in a pinch so that if they get caught off guard, they can still adjust. Inventory, for example, is a type of slack resource that provides extra stock on hand in case it is needed. With extra inventory, an organization does not have to have as much information about sales demand, lead time, and the like.

Employees also can be a type of slack resource. For example, many companies augment their full-time staffs with part-time and temporary employees. This way, they do not have to perfectly forecast sales peaks but can rely on supplementary workers to handle irregularities.

Like slack resources, *creating self-contained tasks* allows organizations to reduce the need for some information. Creating self-contained tasks refers to changing from a functional organization to a product or project organization and giving each unit the resources it needs to perform its task. Information-processing problems are reduced because each unit has its own full complement of specialties instead of functional specialties that have to share their expertise among a number of different product teams. Communications then flow within each team rather than among a complex array of interdependent groups.

Option 2: Increasing Information-Processing Capability Instead of reducing the need for information, an organization may take the approach of increasing its information-processing capability. It can *invest in information systems*, which usually means employing or expanding computer systems. But increasing an organization's information-processing capability also means what we referred to in Chapter 1 as *knowledge management*—capitalizing on the intellect and experience of the organization's human assets to increase collaboration and effectiveness. One way to do that is by creating horizontal relationships between units to foster coordination. Such horizontal relationships are effective because they increase integration, which Lawrence and Lorsch suggest is necessary for managing complex environments. As uncertainty increases, the following horizontal processes may be used, ranging from the simplest to the most complex:[50]

The bottom line
Innovation
Cross-unit coordination can lead to effective problem solutions.

1. *Direct contact (mutual adjustment)* among managers who share a problem. In a university, for example, a residence hall adviser might call a meeting to resolve differences between two feuding students who live in adjacent rooms.
2. *Liaison roles*, or specialized jobs to handle communications between two departments. A fraternity representative is a liaison between the fraternity and the interfraternity council, the university, or the local community.
3. *Task forces*, or groups of representatives from different departments, brought together temporarily to solve a common problem. For example, students, faculty, and administrators may be members of a task force charged with bringing distinguished speakers to campus for a current-events seminar.
4. *Teams*, or permanent interdepartmental decision-making groups. An executive council made up of department heads might meet regularly to make decisions affecting a college of engineering or liberal arts.
5. *Product, program, or project managers* who direct interdisciplinary groups with a common task to perform. In a college of business administration, a faculty administrator might head an executive education program of professors from several disciplines.
6. *Matrix organizations*, composed of dual relationships in which some managers report to two superiors. Your instructors, for example, may report to department heads in their respective disciplines and also to a director of undergraduate or graduate programs.

> "An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage."
>
> —Jack Welch

Several of these processes are discussed further in Chapter 14, where we examine managing teams and intergroup relations.

Looking Ahead

The organization chart, differentiation, integration, authority, delegation, coordination, and the like convey fundamental information about an organization's structure. However, the information so far has provided only a snapshot. The real organization is more like a motion picture—it moves! More flexible and innovative—even virtual—forms of organizations are evolving. Today's organizations are far removed, in many of their fundamental characteristics, from the traditional forms they once had. They may be more networked, flexible, and global, using the electronic sharing of information to move faster than 20th-century managers could have envisaged.

No organization is merely a set of static work relationships. Because organizations are composed of people, they are hotbeds of social relationships. Networks of individuals cutting across departmental boundaries interact with one another. Various friendship groups or cliques band together to form *coalitions*—members of the organization who jointly support a particular issue and try to ensure that their viewpoints determine the outcome of policy decisions.

Thus, the formal organization structure does not describe everything about how the company really works. Even if you know departments and authority relationships, you still have much to understand. How do things really get done? Who influences whom, and how? Which managers are the most powerful? How effective is the top leadership? Which groups are most and which are least effective? What is the nature of communication patterns throughout the organization? These issues are discussed throughout the rest of the book.

Now you are familiar with the basic organizing concepts discussed in this chapter. In the next chapter, we will discuss the current challenges of designing the modern organization with which the modern executive constantly grapples.

Management Close-Up

ASSESSING OUTCOMES AND SEIZING OPPORTUNITIES

Today, Whirlpool has more than 1,000 I-mentors worldwide. They apply the knowledge from their innovation training not only to develop marketable ideas but also to improve the company's processes and procedures continually. For example, Whirlpool's human resource systems, such as its hiring, training, and pay, now reflect the new enterprisewide emphasis on idea development.

Whirlpool acquired rival Maytag Company in 2005. Knowing that speed is of the essence when merging companies, Whirlpool worked quickly to integrate Maytag's employees and product lines. Managers made sure that high-performing employees were identified in plants slated to be closed and found ways to integrate them into other operations. They also educated remaining employees in both former companies of what the newly combined company would produce. Then the company streamlined and modernized its larger supply chain to operate more efficiently. Under Whirlpool's ownership, the Maytag brand is now recovering; it had been dropped by Best Buy.

Creative thinking also helps support Whirlpool's efforts to achieve environmental sustainability. From research studies, the firm found that resource-saving appliances are critical, since 93 percent of greenhouse gas emissions come from in-home appliance use. Through improvements in the design and manufacture of its products, by 2006 Whirlpool had reduced greenhouse gas emissions an estimated 19 percent. The following year, it pledged to reduce its emissions an additional 6.6 percent by the year 2012—an amount whose positive impact would be equivalent to nearly 7,000 square miles of trees, an area roughly the size of Rhode Island and Connecticut.

The company also strives to rethink its recycling program. By 2007, Whirlpool was recycling nearly 90 percent of the 400-plus metric tons of waste its manufacturing plants produce annually. It has also found ways to recycle the plastic-foam packaging that protects its products during shipping. The foam is ground up to make plastic furniture and playground equipment.[51]

- Industry observers suggest that by encouraging companywide participation in idea formation, Nancy Snyder has created a competitive advantage for Whirlpool. What evidence supports this opinion? What role do employees play in this process?
- The innovation team approach that cut across Whirlpool's divisions and departments provides it with continual information for new-product ideas and improved operations. Snyder set up a company intranet to centralize training for I-mentors and enhance communication across all of Whirlpool's divisions. How did this help the company improve its products and processes?

KEY TERMS

Accountability, p. 284
Authority, p. 278
Broker, p. 296
Centralized organization, p. 285
Coordination, p. 278
Coordination by mutual adjustment, p. 297
Coordination by plan, p. 297
Corporate governance, p. 280
Decentralized organization, p. 285
Delegation, p. 283
Departmentalization, p. 287
Differentiation, p. 277
Division of labor, p. 277
Divisional organization, p. 289
Dynamic network, p. 295
Formalization, p. 297
Functional organization, p. 287
Hierarchy, p. 280
Integration, p. 277
Line departments, p. 287
Matrix organization, p. 292
Network organization, p. 295
Organization chart, p. 276
Responsibility, p. 283
Span of control, p. 282
Specialization, p. 277
Staff departments, p. 287
Standardization, p. 297
Subunits, p. 282
Unity-of-command principle, p. 293

SUMMARY OF LEARNING OBJECTIVES

Now that you have studied Chapter 8, you should be able to:

LO 1 Explain how differentiation and integration influence an organization's structure.

Differentiation means that organizations have many parts. Specialization means that various individuals and units throughout the organization perform different tasks. The assignment of tasks to different people or groups often is referred to as the division of labor. But the specialized tasks in an organization cannot all be performed independently of one another. Coordination links the various tasks in order to achieve the organization's overall mission. An organization with many different specialized tasks and work units is highly differentiated; the more differentiated the organization is, the more integration or coordination is required.

LO 2 Summarize how authority operates.

Authority is the legitimate right to make decisions and tell other people what to do. Authority is exercised throughout the hierarchy, as bosses have the authority to give orders to subordinates. Through the day-to-day operation of authority, the organization proceeds toward achieving its goals. Owners or stockholders have ultimate authority.

LO 3 Define the roles of the board of directors and the chief executive officer.

Boards of directors report to stockholders. The board of directors controls or advises management, considers the firm's legal and other interests, and protects stockholders' rights. The chief executive officer reports to the board and is accountable for the organization's performance.

LO 4 Discuss how span of control affects structure and managerial effectiveness.

Span of control is the number of people who report directly to a manager. Narrow spans create tall organizations, and wide spans create flat ones. No single span of control is always appropriate; the optimal span is determined by characteristics of the work, the subordinates, the manager, and the organization.

LO 5 Explain how to delegate effectively.

Delegation—the assignment of tasks and responsibilities—has many potential advantages for the manager, the subordinate, and the organization. But to be effective, the process must be managed carefully. The manager should define the goal, select the person, solicit opinions, provide resources, schedule checkpoints, and discuss progress periodically.

LO 6 Distinguish between centralized and decentralized organizations.

In centralized organizations, most important decisions are made by top managers. In decentralized organizations, many decisions are delegated to lower levels.

LO 7 Summarize ways organizations can be structured.

Organizations can be structured on the basis of function, division (product, customers, or geographic), matrix, and network. Each form has advantages and disadvantages.

LO 8 Identify the unique challenges of the matrix organization.

The matrix is a complex structure with a dual authority structure. A well-managed matrix enables organizations to adapt to change. But it can also create confusion and interpersonal difficulties. People in all positions in the matrix—top executives, product and function managers, and two-boss managers—must acquire unique survival skills.

LO 9 Describe important integrative mechanisms.

Managers can coordinate interdependent units through standardization, plans, and mutual adjustment. Standardization occurs when routines and standard operating procedures are put in place. They typically are accompanied by formalized rules. Coordination by plan is more flexible and allows more freedom in how tasks are carried out but keeps interdependent units focused on schedules and joint goals. Mutual adjustment involves feedback and discussions among related parties to accommodate each other's needs. It is at once the most flexible and simple to administer, but it is time-consuming.

DISCUSSION QUESTIONS

1. Based on the description of Whirlpool in this chapter, give some examples of differentiation in that organization. In other words, what specialized tasks have to be performed, and how is labor divided at Whirlpool? Also, how does Whirlpool integrate the work of these different units? Based on what you have learned in this chapter, would you say Whirlpool has an effective structure? Why or why not?
2. What are some advantages and disadvantages of being in the CEO position?
3. Would you like to sit on a board of directors? Why or why not? If you did serve on a board, what kind of organization would you prefer? As a board member, in what kinds of activities do you think you would most actively engage?
4. Interview a member of a board of directors, and discuss that member's perspectives on his or her role.
5. Pick a job you have held, and describe it in terms of span of control, delegation, responsibility, authority, and accountability.
6. Why do you think managers have difficulty delegating? What can be done to overcome these difficulties?
7. Consider an organization in which you have worked, draw its organization chart, and describe it by using terms in this chapter. How did you like working there, and why?
8. Would you rather work in a functional or divisional organization? Why?
9. If you learned that a company had a matrix structure, would you be more or less interested in working there? Explain your answer. How would you prepare yourself to work effectively in a matrix?
10. Brainstorm a list of methods for integrating interdependent work units. Discuss the activities that need to be undertaken and the pros and cons of each approach.

CONCLUDING CASE

Down East Spud Busters

Down East Spud Busters is part of a conglomerate that represents the potato growers of eastern Canada and northern Maine and that also oversees the collection, processing, and distribution of potatoes and potato products.

For many years, the industry functioned as a local cooperative. The cooperative was simply a collection center where potatoes were weighed and received, washed and graded, bagged and distributed. Potatoes were the only product. Potatoes were distributed in a variety of bag sizes and weights and were also sold loosely in large bins.

The first phase of Down East Spud Busters' strategic plan resulted in the building of a large manufacturing plant in northern Maine with a focus on value-added products. The major strategy is to process higher-value potato products. Those products include a frozen division line (French fries, home fries, gourmet stuffed potatoes, flavored potato skins, and so on), a dried-food division line (instant mashed potatoes, freeze-dried potatoes, potato pancake mix, and so on), and the traditional potato line (bagged potatoes, loose potatoes, microwave singles, baby potatoes, and so on). The corporate group figures that it can triple sales revenues from the existing yield of potatoes.

The second phase of Down East Spud Busters' strategic plan calls for a nationwide sales and distribution program. A gigantic market in retail food sales has gone untouched by this group of growers and producers. The major strategy is to recruit the appropriate sales force and to set up a system for selling and distributing the products. The major markets are supermarket chains, smaller retail grocers, major hotel chains, and governmental/school institutional kitchens.

Down East Spud Busters is leaning toward the concept of hiring sales associates who will work out of their own homes in strategic locations throughout the United States. Those sales associates will be assigned to specific territories and will be challenged to meet or exceed specific quotas of each of the conglomerate's products. The sales associates will also be responsible for overseeing the distribution and delivery of the products, and for dealing with any and all after-sale problems or issues.

The third and final phase of Down East Spud Busters' strategic plan is to build a second manufacturing plant in Idaho in five years and to possibly facilitate and oversee an increase in crop planting and yield in both territories. The company also plans to expand its market territories into selected locations in Europe and the Pacific Rim.

QUESTIONS

1. Select options from the chapter text, and prepare an organizational chart for the national distribution program that this company is about to embark on. Be sure to incorporate the company's goals into your overall structure.
2. Given the vast geographic expanse and logistical challenges of this new program, what recommendations do you have for the company regarding HR policies and procedures?
3. What other types of industries could use the model from this case as a means to expand sales nationally or internationally?

EXPERIENTIAL EXERCISES

8.1 The Business School Organization Chart

OBJECTIVES

1. To clarify the factors that determine organization structure.
2. To provide insight into the workings of an organization.
3. To examine the working relationships within an organization.

INSTRUCTIONS

1. Draw an organization chart for your school of business. Be sure to identify all the staff and line positions in the school. Specify the chain of command and the levels of administration. Note the different spans of control. Are there any advisory groups, task forces, or committees to consider?
2. Review the chapter material on organization structure to help identify both strong and weak points in your school's organization. Now draw another organization chart for the school, incorporating any changes you believe would improve the quality of the school. Support the second chart with a list of recommended changes and reasons for their inclusion.

DISCUSSION QUESTIONS

1. Is your business school well organized? Why or why not?
2. In what ways is the school's structure designed to suit the needs of students, faculty, staff, the administration, and the business community?

8.2 Designing a Student-Run Organization That Provides Consulting Services

OBJECTIVES

1. To appreciate the importance of the total organization on group and individual behavior.
2. To provide a beginning organization design experience that will be familiar to students.

BACKGROUND

The Industry Advisory Council for your school has decided to sponsor a student-run organization that will provide business consulting services to nonprofit groups in your community. The council has donated $20,000 toward start-up costs and has agreed to provide office space, computer equipment, and other materials as needed. The council hopes that the organization will establish its own source of funding after the first year of operation.

Task 1 The dean of the school wants you to develop alternative designs for the new organization. Your task is to identify the main design dimensions or factors to be dealt with in establishing such an organization and to describe the issues that must be resolved for each factor. For example, you might provide an organization chart to help describe the structural issues involved. Before jumping ahead with your design, you may also have to think about (1) groups in the community that could use your help and (2) problems they face. Remember, though, your task is to create the organization that will provide services, not to provide an in-depth look at the types of services provided.

You and your team are to brainstorm design dimensions to be dealt with and to develop a one- or two-page outline that can be shared with the entire class. You have one hour to develop the outline. Select two people to present your design. Assume that you will all be involved in the new organization, filling specific positions.

Task 2 After the brainstorming period, the spokespersons will present the group designs or preferred design and answer questions from the audience.

Task 3 The instructor will comment on the designs and discuss additional factors that might be important for the success of this organization.

SOURCE: A. B. (Rami) Shani and James B. Lau, *Behavior in Organizations: An Experimental Approach* (New York: McGraw-Hill/Irwin, 2005), p. 369.

8.3 Decentralization: Pros and Cons

OBJECTIVE

To explore the reasons for, as well as the pros and cons of, decentralizing.

INSTRUCTIONS

The following Decentralization Worksheet contains some observations on decentralization. As you review each of the statements, provide an example that illustrates why this statement is important and related problems and benefits of the situation or condition indicated in the statement.

Decentralization Worksheet

A large number of factors determine the extent to which a manager should decentralize. Clearly, anything that increases a manager's workload creates pressure for decentralization because only a finite level of work can be accomplished by a single person. As with many facets of management, there are advantages and disadvantages to decentralization.

1. The greater the diversity of products, the greater the decentralization.

2. The larger the size of the organization, the more the decentralization.

3. The more rapidly changing the organization's environment, the more decentralization.

4. Developing adequate, timely controls is the essence of decentralizing.

5. Managers should delegate decisions that involve large amounts of time but minimal erosions of their power and control.

6. Decentralizing involves delegating authority, and therefore, the principles of delegation apply to decentralization. (List the principles of delegation before you start your discussion.)

SOURCE: R. R. McGrath Jr., *Exercises in Management Fundamentals* (Englewood Cliffs, NJ: Prentice Hall, 1985), pp. 59–60. Reprinted by permission of Prentice Hall, Inc.