

# The Organizing Function

3



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## Learning Objectives

After completing this chapter, you should be able to:

- ◆ Connect the organizing function with company success.
- ◆ Identify different categories of jobs.
- ◆ Employ the best form of departmentalization for a specific company.
- ◆ Finalize the structure of a company.
- ◆ Describe various types of organizational configuration.

## 3.1 Introduction

One key part of a manager's job is to identify the best way to organize and run a company or an organization. Well-organized companies often become the most efficient, effective, and productive in an industry group. Effective organizing processes lead to company success. A management team that can work with and implement the structures and plans of a company is vital.

The organizing process flows naturally from the human tendency to seek cooperation and collaboration. Many people are predisposed to cooperate with one another. Early humans worked together to survive.

While some cooperative human behaviors are likely instinctual, people learn them mostly from various interactions with the environment, family, school, and culture. For example, many learn early in life to keep their bedrooms clean and orderly. They later learn to keep a school locker orderly, and eventually they learn to organize computer files and MP3 music files on portable music devices. As humans evolved, their mental capacity for planning and organizing became more complex. Organizing complex structures, however, such as a large-scale manufacturing plant or a resort with 500 guest rooms, requires organizing skills that encompass more than basic socialization.

Organizing may be defined as the process of efficiently and effectively bringing people and resources together to create products and services. Organizing establishes task and authority relationships that allow people to work together to achieve the organization's goals.

Managers create structures within business organizations to facilitate the operations of their institutions. The structure of the organization consists of individual jobs that are combined into departments to create "the skeleton of the organizational system" (Steers, Ungson, & Mowday, 1985). This structural "skeleton" holds up the entire organization and allows it to move forward to achieve its plan for success. **Organizational structure** is a formal system of task and reporting relationships that coordinates the activities of employees so that they can work together to achieve organizational goals. The organizational structure determines how an organization's resources can be best used to create goods and services. **Organizational design** is the process by which managers make specific organizing choices that result in the particular kind of organizational structure for the company.

In this chapter, we introduce the organizing function and divide it into three primary activities: job design, departmentalization, and specification. Job design creates the individual job units, departmentalization categorizes the jobs into logical groups or departments, and specification of authority–responsibility relationships finalizes the company's structure.

### MANAGEMENT IN PRACTICE

#### *The Richards Group: Organizing Creativity*

The Richards Group, based in Dallas, Texas, is America's largest independent advertising agency. The company generates billings in excess of \$1 billion annually and employs over 650 marketing professionals. Its list of clients includes a variety of well-known companies, such as Orkin, Fruit of the Loom, T.G.I. Friday's, Zales, Red Lobster, Farmers Insurance, and others. *Graphic Design USA* has

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listed The Richards Group as one of the six most influential agencies in the United States. The firm has also received many awards, including *Adweek* magazine's Agency of the Year numerous times.

Beyond these simple statistics is a story that owner-founder Stan Richards described as "a rocket ride," in an April 6, 2006, article in the *Dallas Business Journal*. That ride led to his being named one of *The Wall Street Journal's* "Giants of Our Time." Other agencies have emulated many of the tactics employed by The Richards Group. Richards notes that his company instituted them first, and he believes they still use them best. He has creatively employed the fundamentals of organizing to help the company achieve its dramatic success.

The Richards Group is founded on key core principles in its *mission statement* and its *overall strategy*. In a 2010 interview with Donald Baack, Stan Richards expressed his company's philosophy when he said, "Some companies push products. Some sell ads. We sell the truth." The approach clearly works. Richards notes:

When we are hired by a client, it's not just to make ads. We do so many things that are extremely important. That ad is what the consumer ultimately sees, but in order to get there, you have to have a dead-on strategy, if you're going to be successful. You go through the strategic process, you get to the right answer, and then you can execute against that answer.

Based on this foundation, the company's organizational structure has been built. The Richards Group carefully engaged in **job design**. A small advertising agency will hire generalists, who take care of a variety of assignments. As the organization grows, jobs become more specialized. The Richards Groups employs highly skilled specialists in every aspect of advertising, from creating contracts with prospective clients, to purchasing media time, to making advertisements, to evaluating their success.

Departmentalization is the point where Stan Richards moved away from traditional models. The firm, which once consisted of fewer than 60 workers all located on one floor of an office building, expanded to a major office building on the North Central Expressway in Dallas, Texas. Employees in The Richards Group work in open offices with no doors or walls. More significantly, Richards notes:

What we do is co-mingle all the disciplines, so that in every cluster of spaces we will have an art director who sits next to a brand manager, who, for example, sits next to a print production manager, so that, in those interdisciplinary villages that everyone here occupies, nobody's next door neighbor does the same thing that he or she does. What you don't get is all the creative people sitting on this floor, then all the account management people on the next floor, and the media people on the floor above that.

The reason I did that in the first place was that when we were 50 or 60 people, there was an extraordinary level of energy and electricity that just flowed through the place. You could just walk in and feel it. A lot of it was created by the casual contact people had with each other. When you have 50 or 60 people packed into a tight space, you see everybody every day.

What agencies have always done, is when they reach that 120 to 130 person size, they then had to move to multiple floors. And the minute they do, they take a tight-knit bunch of people who really liked each other and understood each other, because they saw each other every day, and divide them up into tribes. These tribes don't always get along.

There are lots of occasions where a creative will butt heads with a planner, because they have a different point of view. When you are packed into a tight space, and when you have a great deal of casual contact going on all day, every day, you get over that stuff, because they are your friends. When you're on a different floor, you seldom see them and you decide, "That's a different tribe up there, and they drive me crazy." By moving away from traditional forms of departmentalization, the company has avoided many of those problems. (S. Richards, personal communication, February 2010, reprinted by permission of Stan Richards.)

(continued)

The *organizational structure* at The Richards Group consists of fairly standard authority–responsibility relationships. Individuals continue to report to supervisors who are in charge of the basic functions, such as media selection. At the same time, to continue the creative cooperative spirit built by comingling specialists, staff meetings are often held in the stairwells between floors to help maintain egalitarian and positive relationships among all employees.

Some of the successful campaigns initiated by The Richards Group include the longstanding Chick-fil-A cow campaign, the Motel 6 campaigns, and the company's 2010 and 2011 Super Bowl commercials with Bridgestone. Another product, Corona, has become the number one imported beer in the United States. It has passed Heineken due, in part, to a successful advertising management program assisted by The Richards Group (Richards, 2010).

#### Discussion Questions

1. How are jobs in advertising agencies different from jobs in other companies?
2. Do you think comingling specialists, as is the case in The Richards Group, would work in other companies?
3. What types of individuals should The Richards Group hire, and what types would not fit with the company?

## 3.2 Job Design

One major aspect of creating a company's organizational structure involves designing jobs at all levels of the hierarchy. Documenting the types of jobs the company needs to complete its objectives is the first step in the job design process.

A **job** is a set or series of tasks performed by an individual on behalf of an organization. A **task** is a single chore that is part of something larger—the job. For example, a mechanic in a car dealership may be asked to sweep the floor (one task), change the oil in a truck (task two), and sometimes drive patrons from the shop to their work or homes (task three). Most jobs require the completion of many tasks throughout the day. Jobs can also be assigned to categories, such as those displayed in Table 3.1.



▲ The specific *tasks* performed by a mechanic, when combined, constitute his *job*.

Job design takes place when managers, normally working with the human resources department, determine the tasks that need to be completed, the people who will do them, and the selection criteria that will be used to choose employees and place them on the job. The standard approach to job design involves three steps: job analysis, job description, and job specification. These steps are described in detail in Chapter 4 pertaining to human resource management. Jobs are the building blocks used in creating the organization's structure. Carefully designed jobs allow workers to succeed by being responsible for appropriate and manageable levels of work. Also, precise job descriptions provide workers

with clarity regarding which tasks they are and are not assigned to do. Well-written job specifications enhance the odds that the proper person will be hired to complete the assigned tasks.

**Table 3.1** Types of jobs

Category	Examples
Unskilled Blue Collar	Housekeeper Trash hauler
Semiskilled Blue Collar	Assembly line employee Truck driver
Skilled Blue Collar	Electrician Plumber Carpenter
Front-line White Collar	Retail clerk Bank teller
Semiprofessional	Paralegal Paramedic Dental hygienist
Professional	Doctor Attorney CPA
Specialized Professional	Research scientist

### 3.3 Departmentalization

**Departmentalization** is an organizational tool that involves placing various jobs into individual departments or divisions including accounting, marketing, and production. Although departmentalization may be used in several other ways, Table 3.2 summarizes some of its various forms and indicates when each of them may be most helpful to the management team.

**Table 3.2** Forms of departmentalization

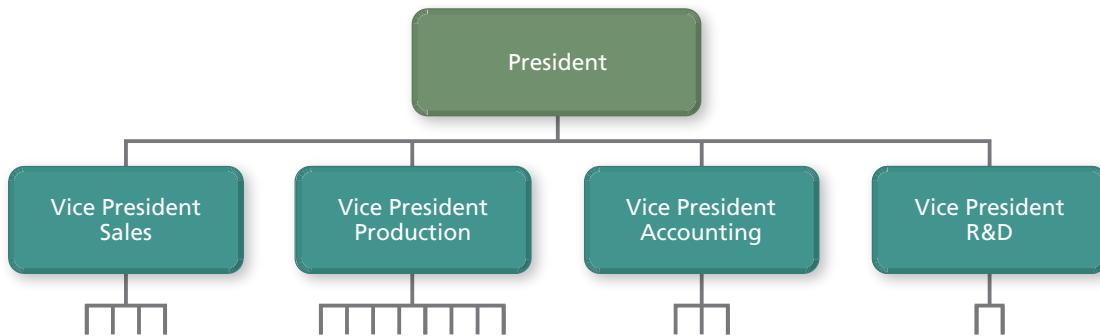
Departmentalization by . . .	Found in . . .
Function	small, single-product/service firms
Product	growing, few product companies
Customer	firms selling the same product to diverse customers
Geographic region	branch banking, retail chains, franchise operations
Strategic business unit	conglomerates
Matrix	high-tech firms, multinational companies

#### Departmentalization by Function

Departmentalization by function is the most common form, because most companies are smaller and offer one main product or service. Figure 3.1 presents a simplified organization chart

for a firm using this approach. Functional structure allows for top-level control with expertise maintained in the individual departments. Jobs are easily matched to functional specialties (Mintzberg, 1979).

**Figure 3.1** Departmentalization by function



Henry Mintzberg (1983) recognized five coordinated flows linking the common parts of departmentalization:

1. *Authority.* Authorization is needed to move the structural part forward and complete job tasks.
2. *Work material.* Raw material and supplies are essential to start and complete tasks.
3. *Information.* Data is required to inform decision making at every level of the organization.
4. *Decision process.* Timely decision making allows for the continual operation of job tasks.
5. *Ideology.* An organization's unique vision, theories, culture, and traditions contribute to its structure.

Mintzberg's coordinated flows are essential to begin operating activity as well as to measure progress. They are well served by a functional form of departmentalization.

## Departmentalization by Product

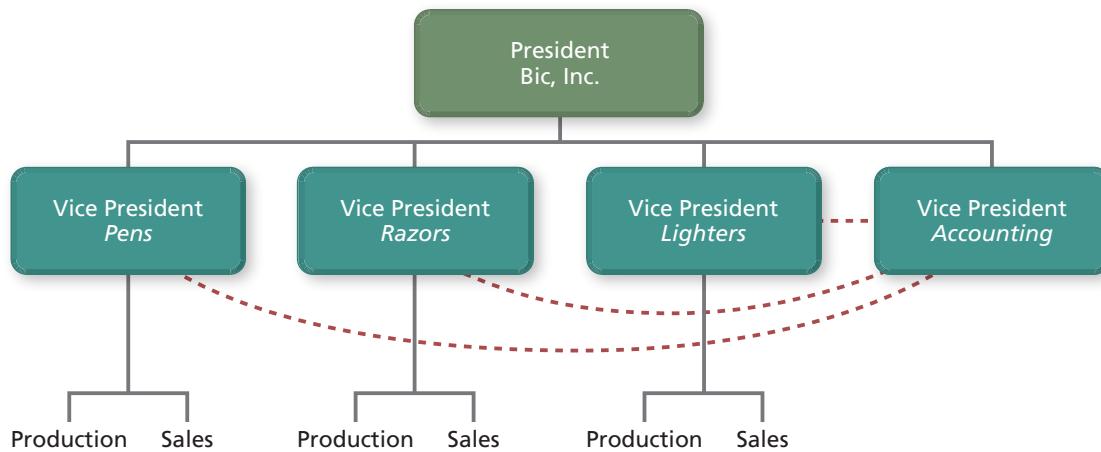
Multiproduct firms use departmentalization by product, in which all activities related to a product or service are placed in one department under one executive or senior manager. Figure 3.2 shows an example as applied by the Bic company, which is divided based on the products sold. General Motors, DuPont, and other firms learned that growth and expansion of product lines requires a form of structure that facilitates the differences in products and at the same time allows for some specialists to serve all parts of the company. Departmentalization by product meets these needs and demands (Ranson, Hinings, & Greenwood, 1980).

## Departmentalization by Customer

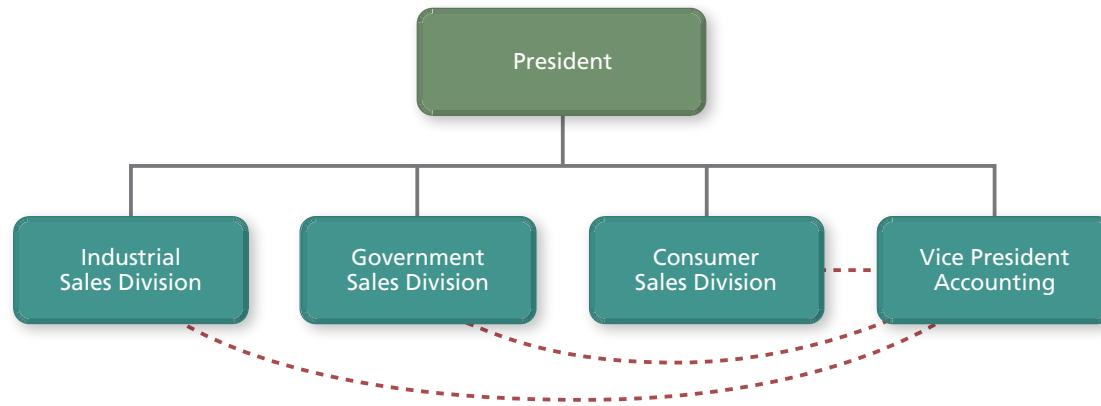
Many companies offer the same product to divergent customers. As depicted in Figure 3.3, departmentalization by customer allows for specialization based on customer differences. A company such as Dell Computers has three distinct groups: other businesses (industrial or b-to-b sales), the government, and individual consumers. This form of structure offers the advantage of optimizing the services to all groups, each of which have unique purchasing needs and purchasing methods. For example, individuals buy online or at the store, businesses tend to make

purchases at trade shows or through a purchasing department, and governments must follow specific, regulated procedures. The three groups require differing service needs, such as repair contracts and warranties.

**Figure 3.2** Departmentalization by product

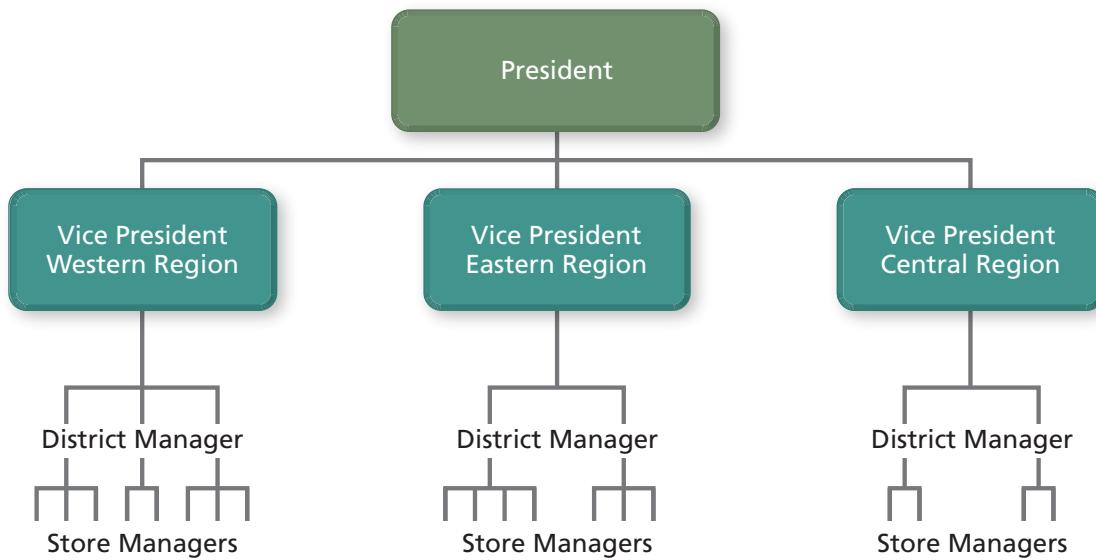


**Figure 3.3** Departmentalization by customer



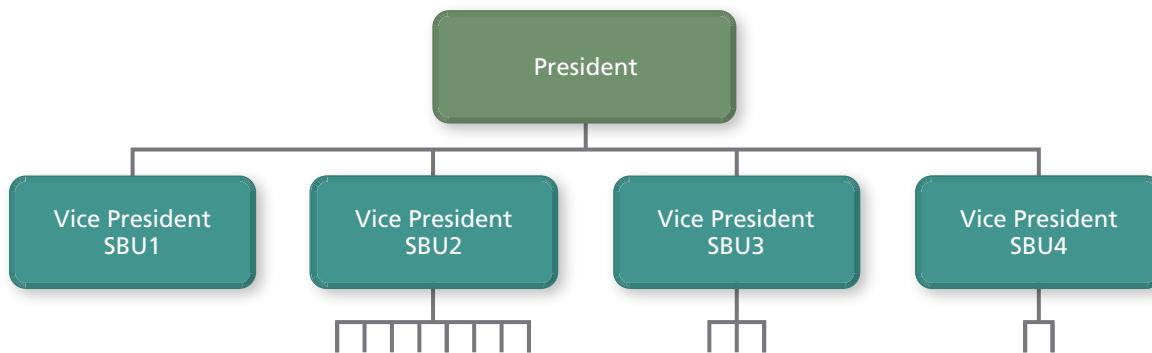
## Departmentalization by Geographic Region

When a company is divided by territories or regions, terms such as *district*, *zone*, and *area* are assigned to the departments. Figure 3.4 is an example of departmentalization by geographic region. Departmentalization by location is also known as *parallel departmentalization*, because the levels in the organizational hierarchy contain managers who perform the same duties in different regions, such as at branch banks or fast-food locations. Geographical departmentalization makes it possible to tailor managerial efforts that address territorial differences. For example, a Sears retail store in Florida will sell different items than one in Minnesota during the winter months; however, the department names remain the same. A food chain such as Subway may offer region-specific menu items, while the basic model of operation remains the same in all locations.

**Figure 3.4** Departmentalization by geographic region

### Departmentalization by Strategic Business Unit

As noted in Chapter 2, strategic business units are clusters of activities typically held together by a common thread, such as a product type or type of customer served. A strategic business unit (SBU) will be analyzed as a “company within the company.” Many major corporations align strategic business units by products, customers, geographic regions, manufacturing methods, and other common elements (Figure 3.5). For example, 3M may subdivide its operations into strategic business groups organized by type of product: sticky (duct tape, Scotch tape), magnetic (DVDs, recording tape), and cleaners. Each strategic business unit may be evaluated through the revenues it generates or profits it creates, which means some units will be termed “profit centers.” Others may be structured as cost centers or as simple operating divisions. If Amazon.com divided into one unit based on selling popular press books, another featuring electronic transmission of book materials, and a third focused on high school and college textbooks, each of them could become a stand-alone strategic business unit.

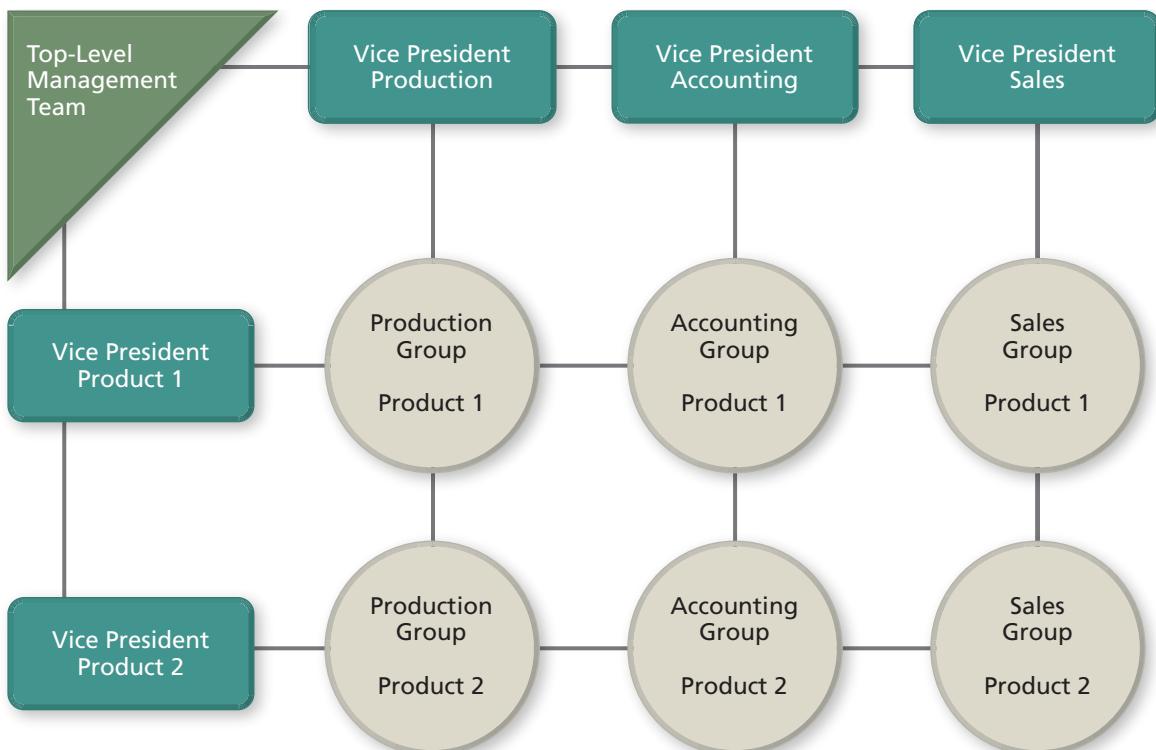
**Figure 3.5** Departmentalization by strategic business units

## Departmentalization by Matrix

Matrix organizations are also called *two-boss systems*. As shown in Figure 3.6, each employee answers to a functional area supervisor as well as a product manager. For example, the top row in this figure includes three functional first-line supervisors: one for production, one for accounting, and one for sales. Directly below them are the employees performing those functions. The vertical row of supervisors in the same figure indicates managers for individual products (1 and 2). Thus, a production worker in the top row responds to a functional manager (production supervisor) and to a product manager (product 1). In the next row down, production workers respond to the same production supervisor but to the manager for product 2. The same holds true for salespeople responding to the sales manager and then to the product manager to whom they are assigned (1 or 2) as well as for accountants answering to the accounting supervisor but also to their designated product manager, 1 or 2.

Matrix organizations create circumstances in which maximum flexibility and adaptability in operations are possible, because workers are routinely assigned to differing products and product managers. Consequently, they must be able to adjust to change and accept some role ambiguity as part of the daily routine as the tasks they work on tend to vary. The only constant will be the employee's functional supervisor.

**Figure 3.6** Departmentalization by matrix



An adaptation of the matrix organization is to design the company by product and by country. Products must often be adapted when moved into new areas, due to differences in electrical systems (AC versus DC) and in measurements such as ounces versus grams. Product managers are asked to identify national differences and help adapt production systems, marketing programs, and other activities to the new circumstances. In this adaptation, the functional managers remain the same. Instead of product managers (the vertical row of supervisors), the titles become those assigned to managers for various countries. Each employee then has a functional supervisor and a national supervisor who is responsible for helping the company adapt to differing circumstances in other countries.

### Managerial Concerns

The most rudimentary form of organizational structure, by function, is also the most common. This form is seen in smaller, single-product or service companies, which constitute the majority of businesses. As companies add products, services, and additional specialists and activities, the degree of complexity rises and more intricate departmental arrangements normally result.

Departmentalization by products will be best suited to companies that have begun to grow by adding new products and services (product diversification). Departmentalization by customer tends to be found in organizations that sell the same product to diverse customers, such as computers and other technologies as well as some other, more basic items. Departmentalization by geographic area, or parallel departmentalization, is typical when a company performs the same activities in various geographic areas, such as is found in retail chains (Walmart, Sears, Target), in fast-food chains (Subway, McDonald's, KFC), and in branch banking, which allows managers to customize to the unique needs of the region while at the same time standardizing many aspects of company operations. Strategic business units are used in multiproduct/multiservice conglomerates with high degrees of differentiation between units. The matrix organization grants the manager the highest degree of flexibility and adaptability and normally is present in high-tech firms that must adapt to quickly changing environmental circumstances as well as in companies operating in various countries.

Remember that these forms of departmentalization can be adapted to meet specific company needs as well as be modified to serve in multinational companies, nonprofit organizations, and even governmental institutions. The needs of the organization should dictate its structure.

## 3.4 Completing the Organization's Structure

Completion of an organizational structure occurs as managers identify the amount of influence and accountability for these different individuals and groups, along with other elements of organizational design. The organization charts shown in the previous section depict the first key activity that is part of completing the organization's structure: drawing lines of authority and responsibility. In each of the models, any vertical line from one position to the next lower (or higher) depicts an authority–responsibility relationship. In essence, a president holds authority over his or her vice presidents; those VPs are responsible for carrying out the president's instructions and decisions.

**Authority**, then, consists of the right to direct with permission to act, which suggests that authority has two key components. The *right to direct* means the right to give orders and oversee activities. The manager of an auto repair shop has the authority to ask a worker who is changing

a tire to stop and help another employee pull the transmission from another car being repaired. *Permission to act* represents the right to make decisions on behalf of a company. The auto repair manager may have made the decision to work on the transmission first, knowing that because the customer needing a new tire will not return until the next day, that task can be completed later. The transmission repair is more urgent and deserves attention first.

**Responsibility**, or *accountability*, is the obligation to complete tasks as assigned by reporting to a specific supervisor. Someone who is responsible follows directions and is expected to follow them correctly and completely. The mechanic who has been asked to assist in the transmission repair should do so until the chore has been successfully completed.

The noted French management expert Henri Fayol (1916) was among the first to describe the concept of *parity of authority and responsibility*. This principle suggests that anyone who holds a position of authority should be held accountable for how that authority is used. Further, anyone who is responsible for an outcome should have sufficient authority to carry out the assignment.

In today's modern organizations, three forms of authority are found. *Line authority* is direct formal authority, the type shown on the lines of an organization chart. *Staff authority* consists of the right to advise or give advice. A company's legal department provides legal advice to all levels in the company. An accountant gives tax advice to all departments. *Functional authority* has been described as the right to direct, but not to discipline. It occurs when a person has been placed in charge of a task force or committee. The individual is charged with the responsibility of getting something done (direct), such as completing a safety committee report; however, committee members may or may not follow directions and complete the task on time. Functional authority relies on employee professionalism to accomplish goals. Due to the increasingly complex nature of work, the reliance on functional authority has risen as the number of teams and groups increases. When the first process in completing the structure of an organization, outlining authority–responsibility relationships, is complete, then other decisions can be made.

## MANAGEMENT IN PRACTICE

### *Sources of Authority*

Where does authority come from? How is it established? Over the years, two major perspectives regarding the nature of authority and its sources have emerged. One theory suggests a "top down" source of authority; the other proposes a "bottom up" foundation.

Max Weber, a German sociologist who studied organizations, suggested three sources of authority from the top-down perspective. *Traditional authority* derives from longstanding traditions within countries whose kings, chieftains, and church officials possess the ability to direct others through birthright or societal beliefs in governmental or religious systems. In Europe, many business organizations were founded through the dictates of members of royal families, which meant that submitting to the authority of a supervisor was, in essence, submitting to the authority of the crown.

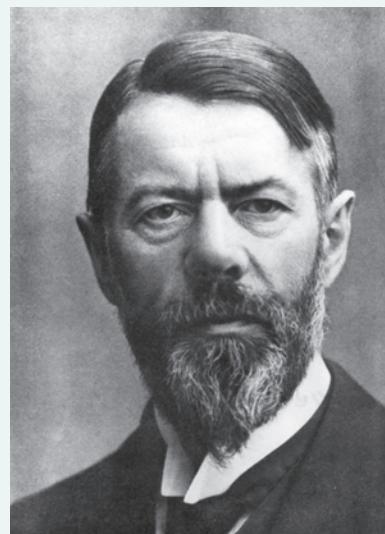
A second source, *charismatic authority*, emerges as a "gift of grace"—for example, when a dynamic military leader inspires and guides troops. A leader like this holds and maintains authority due to personal characteristics including charm, persuasiveness, inspirational ability, and so forth. Such a "general" then becomes empowered to direct the activities of others within his or her domain.

(continued)

The third source, *legal/rational authority*, is based on a contractual agreement, such as one created between an organization and its employees. In exchange for compensation and other benefits, an employee agrees to submit to the authority of managers within the organization (Weber, 1922).

In all three of Weber's forms, authority rests at the top of the organization and moves downward. Processes such as delegation allow authority to be granted to those at lower ranks. In contrast, a second point of view argues the exact opposite. Chester Barnard's (1938) *acceptance theory* insists that authority exists only when subordinates accept or acquiesce to it. To achieve authority, four conditions must be met. First, individuals must understand the nature of authority. Second, they must believe the use of authority takes place in a manner consistent with the purposes of the organization. Third, the subordinates must believe the use of authority takes place in a way that meets their own personal interests. Fourth, those being influenced must be able to comply.

Consider the companies where you have worked and other organizations (such as religious denominations or charitable groups) that you belong to. Do you believe that authority moves from the top down or from the bottom up? Does the type of organization make a difference? Think of a military organization as opposed to a group of volunteers in a Parent-Teacher Association at a grade school. Understanding the basis of authority and its use is a helpful tool for those in managerial or leadership positions.



Courtesy Everett Collection

▲ Sociologist Max Weber  
(1864–1920)

## Centralization and Decentralization

Another key set of decisions to be completed includes those regarding the delegation of authority. **Centralization and decentralization** refer to the degree of delegation of decision making, authority, and power within an organization. A highly centralized organization is one in which authority is *not* delegated. The executive management team, for example, makes key decisions and issues orders that direct company activities. Other members of the organization must take and follow orders issued by the executive management team. In a highly decentralized firm, front-line supervisors make important organizational decisions.

### Size and Decentralization

Peter Blau (1970) suggests that a strong relationship exists between the size of an organization and the degree of decentralization. In essence, smaller firms are likely to remain centralized, because managers are aware of all activities and know each employee. This places them in the position to make all decisions. As a firm grows, the company begins to add specialists and new departments. The sheer volume of decisions to be made rises. The top manager becomes less able to direct everything, which means delegation begins to take place. At the same time, the top manager wants to retain a degree of control, which leads to standardization, formalization, and mechanization/computerization.

**Standardization** is the use of a series of job titles that are exactly the same, and the workers perform the same activities. **Formalization** refers to the presence of rules and procedures. **Mechanization/computerization** measures the reliance on computers and technology to

maintain operations (Blau & Schoenherr, 1971). As an example, consider the differences between managing a “stop and shop” convenience store and a Walmart superstore. In the convenience store, the manager knows all the employees and every aspect of the store’s operations, so he or she can make every decision. At the Walmart superstore, the manager does not even know the names of all employees. The store employs specialists in many areas, including automotive, lawn and garden, jewelry, men and women’s clothing, and others. The Walmart store manager is best served by a classic management principle: Let experts make decisions. The manager delegates to the specialists (decentralization). At the same time, Walmart hires many individuals with titles such as “stocker” and “cashier” (standardization), the rules for rotating inventory on the shelves and for checking out customers are the same for every stocker and cashier (formalization), and the store uses computers to track sales, inventory, and other statistics (mechanization).



Nick Ut/Associated Press

▲ Stores like Walmart use the practice of standardization when hiring multiple employees with the same title, such as cashier.

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### Strategies and Decentralization

In 1962, Alfred Chandler proposed a relationship between company strategies and company structure. His work suggests that organizational structure may be a matter of managerial design that evolves over time and as organizational conditions change. Chandler’s analysis is grounded in historical research. An in-depth review of case histories of a number of major U.S. companies reveals four stages of structural development that were consistently present (see Table 3.3).

**Table 3.3** Strategy and structure

Stage 1	Most firms begin with a single product and a centralized, functional form of structure.
Stage 2	Successful firms tend to grow by adding products and services, a strategy known as product diversification.
Stage 3	The demands of the new products and services become so great that the company becomes inefficient and eventually a crisis develops.
Stage 4	To resolve the crisis, company leaders adopt new forms of structure that are product based and decentralized.

As Table 3.3 indicates, Stage 2 holds a strategy and Stage 4 suggests a corresponding change in structure. The historical information corresponds with the work of Blau in that firms in Stage 1 are likely to be small and centralized. Stages 2 and 3 add the complexity of added decisions and specialists. Stage 4 indicates that decentralization better serves a larger company.

As an example, consider how this approach would apply to the Bic Corporation when it first expanded its product lines. The original Bic product, a ballpoint pen, was highly successful as early as the 1960s. The product line held a major share of the disposable pen market. To expand, however, Bic’s executives knew that a second product would need to be developed. At that time, Gillette had introduced the Cricket disposable lighter. Seeing a potential opportunity, Bic

introduced its disposable lighter. For a time, the Bic product was well received—until 1987, when a few incidents of injuries occurred for some customers using the lighter (Funding Universe, 2013). This challenge could have led to splitting the pen department away from the lighter department and decentralizing the decision making to experts who could make sure that the design was safe and that the information could be effectively transmitted to wary consumers. The strategy, product diversification, would then have led to a change in structure, product-based departmentalization, and decentralization of authority.

It is important to note that changes in degrees of centralization and decentralization tend to alter job descriptions and job specifications. In a highly centralized operation, individuals at the lowest levels must understand they will not be allowed to make decisions and will be expected to follow orders. Front-line supervisors in the company will experience the same situation. In highly decentralized companies, individuals who are willing to take the initiative, make key decisions, and work with others are more likely to be hired. Delegation and decentralization rely on cooperation between managers and employees to make the best decisions and take the proper course of action.

## Mechanistic and Organic Structures

Another key element of organizational design regulates company flexibility and adaptability. **Mechanistic organizations** are characterized by the high use of rules and procedures, a greater number of levels in the organization, and formal relationships between workers. This design results in a less flexible method of operation. Organization charts in mechanistic organizations tend to be tall and thin, with many ranks and fewer people at each rank. For many years, the military was used as a prime example of a mechanistic organization. The Army holds many ranks, from buck private to five-star general; relationships historically tended to be highly formal among soldiers, who referred to each other by titles and used respectful language (such as “sir”), and the organization was served by a vast number of rules and procedures. More recently, the military has changed and the example is less applicable. Currently, many manufacturing operations in environments characterized by low levels of change and few competitors may use a more mechanistic form of structure.

**Organic structures** employ few rules and procedures, have a small number of organizational levels and ranks, and allow for informal relationships among workers and supervisors. This design is much more flexible and adaptable as a result. Organic structures are short and squat, with few ranks and many people in each rank. Many creative industries, such as advertising agencies and management consulting firms, use organic structures. There may be as few as three organizational levels or ranks, from entry-level employee to the top manager in the company; relationships are informal and on a first-name basis, and these organizations can quickly adapt to changing circumstances. Advertising agencies have been forced to adapt to the increasing use of social media (Facebook and Twitter) in developing methods to reach customers. An organic form of structure better serves that need. The same is true for consulting firms that must adapt to changing economic and social conditions when providing advice to client companies.

Joan Woodward (1965) and her associates engaged in a major research project in Great Britain in the 1950s. The purpose was to seek out the causes of structure in effective organizations. These efforts identified a consistent pattern in which the technology of a firm could be matched to its structure, as displayed in Table 3.4.

**Table 3.4** Technology and structure

Type of technology	Type of structure
Unit, small batch	Organic
Large batch, mass production	Mechanistic
Process production	Organic

Unit or small batch technology occurs when units are made one at a time (repairing a car; tailoring a suit), or in small lots or batches, such as the amount of marinara sauce prepared for daily use in an Italian restaurant. Remaining flexible and adaptable best serves that type of operation, at least in terms of profits, growth, and other measures of company success. Large batch assembly-line operations create standardized products. Carefully following rules and procedures increases efficiency. As noted earlier, many manufacturing facilities are mechanistic in their structural designs, at least in the production departments. Process production includes unique circumstances such as chemical manufacturers, some utilities, and breweries and distilleries. In these organizations, problems tend to be unusual and require investigation. The more flexible and adaptable organic structure fits these circumstances.

In essence, Woodward argues that we should not be concerned with how companies are structured in general. Instead, she identified what successful companies achieved. These organizations thrived by matching their structures with the type of technology used to make the goods or services.

### Impact on Employees and Managers

At this point, you may be asking a key question often posed by business students: Who cares? Why is the study of centralization/decentralization and mechanistic/organic organizational design important? Part of the answer may be found in the impact of a structure on individual employees and their supervisors.

In the first place, structural design influences the number and types of decisions made at every rank in the company. In a centralized/mechanistic organization, only those at the highest ranks make decisions of any importance. First-line supervisors and employees are relegated to simply following the dictates of those decisions. In contrast, an organic/decentralized company is characterized by lower-ranking supervisors, and even individual employees make more decisions—and those decisions have a greater impact on the organization.

Moreover, organizational design and job design in particular designate the number of tasks lower-ranking employees will perform. In mechanistic/centralized companies, first-line employees can expect to perform a relatively small number of tasks as they do their jobs. Greater decentralization and a more organic structure tend to increase the number of tasks entry-level workers perform, and those tasks often are more varied and interesting.

Structure also affects the rigidity or flexibility present in each worker's role. Mechanistic organizations, by their natures, clearly define how a role or job should be performed. Therefore, little flexibility exists within those positions, save for employees at the highest ranks in the company. An organic organization leads to greater flexibility in the role. That is, individual workers help decide how tasks should be performed.

Furthermore, the nature of an organization's structure dictates the relationship between managers and subordinates. In a mechanistic/centralized firm, you can expect more formal interactions with a supervisor. Titles tend to be used rather than first names. Those employed in organic/decentralized organizations will notice a more casual and informal relationship with those in charge.

In ways most people would not think of, structure influences perceptions of chances for advancement or promotion. A mechanistic/centralized organization tends to have many ranks and exhibits a taller, thinner organization chart. The increase in the number of ranks, with fewer jobs within each rank, means it becomes easier to obtain promotions over time. Some management experts have called this phenomenon the "illusion of upward movement," because the person does move up the organizational hierarchy (perhaps even with a pay raise and new title), but he or she still holds low levels of authority and often continues to work in a relatively mundane job. Organic/decentralized organization charts are likely to be short and squat; they have few ranks and many positions within each rank. This structure increases competition any time there is a job opening at a higher level. At the same time, even someone at the lower rank may experience a greater sense of empowerment, even without being promoted.

Finally, clearly spelled out structures, such as those present in mechanistic and centralized firms, tend to generate *role clarity* for the employees. In other words, workers know what they are "supposed to be doing" at any given time. Role clarity creates a sense of security and is often less stressful for individuals within the company. The opposite situation, *role ambiguity*, means employees have a less solid or strong sense of what they are supposed to be doing. Role ambiguity can create tension and stress for some individuals.

Two issues emerge as a consequence. First, what is best for the organization? As Joan Woodward discovered, some companies clearly are best suited to more centralized and mechanistic forms of structure. Others become more likely to succeed with an organic and decentralized form of organizational structure. It is the responsibility of the management team to design the appropriate structure for the organization.

The second issue centers on where people would like to work. Students often respond quickly by saying, "an organic/decentralized company." But is that really what they want? Consider your own needs for clarity and low ambiguity before answering. The human resources department, working with individual managers, should be aware of the relationship between the job designs, as dictated by the natures of organizational structures, and the personal characteristics of employees who are a good match to those jobs. Part of your responsibility as an applicant is to ensure that the places you seek employment are best suited to your personality and your desire for autonomy, responsibility, and a challenging number of tasks.

## Characteristics of Typical Organizations

German sociologist Max Weber (1864–1920), who was noted previously in the "Management in Practice" box in this section, had his work published posthumously in 1922. Weber suggested that organizations share certain characteristics in addition to goal orientation (Weber, 1947). The final design of the organization should account for each of these characteristics, which include the following:

- *Division of labor (labor specialization)*. Tasks in organizations tend to be grouped to maximize productivity and are often based on some inter- or extra-organizational criteria. Typically, work specialization is broken down by specific job tasks or work skills, such as

machinists, equipment operators, quality control inspectors, accountants, and salespeople. Seldom does an organization efficiently operate for long without labor specialization.

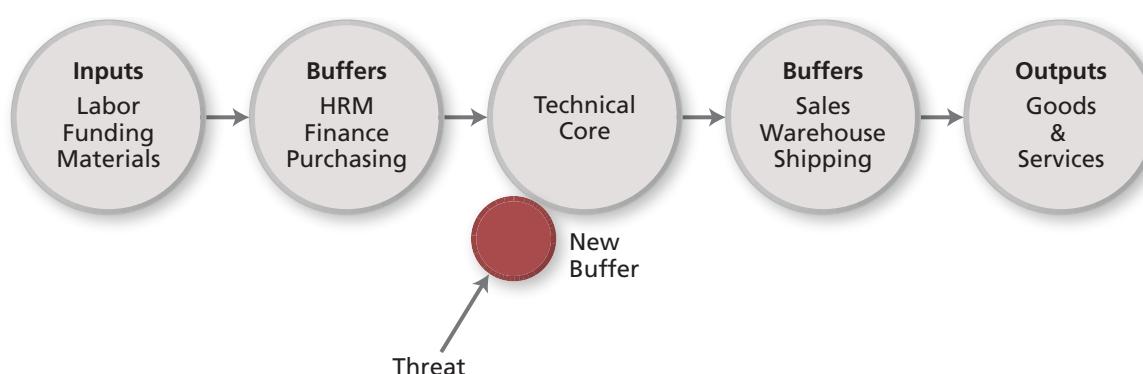
- *Span of control.* A superior cannot manage an unlimited number of subordinates, because this situation is unwieldy and ineffective. Subordinates require feedback, direction, and often correction. Organization theory suggests limiting the number of subordinates; the number depends on the kind of work to be completed by the subordinates and the distance from the center of control. The span should be kept as manageable as possible.
- *Formalization.* Almost all organizations have rules, whether written or unwritten. Most modern organizations use the term *policy* or *work rules*, but in every case the rules are intended to guide action and decision making across the organization. The more detailed, specific, and clear the rules of the organization are, the more formal the organization.
- *Number of authority levels.* Organizations may have very few authority levels (flat) or several (tall), depending on the type of organization and its plan of operation. Organization theory suggests that the wider the span of control (more subordinates reporting to a superior), the flatter the organizational structure; and the narrower the span of control (fewer subordinates reporting to a superior), the taller the structure.

Weber suggested that these characteristics could be coordinated only by effective communication among organizational members and by standardizing work processes. As work becomes more complex, direct supervision becomes a more important factor in maintaining standardized work outputs. Weber's concept of formalization is a natural efficiency-improving process that happens within the organization and may occur in several ways: by the job, by the work, or by the rules.

## An Organization in Crisis

Sometimes, events in an organization's environment threaten internal operations. J. D. Thompson (1967) developed a view of organizational structure in which the core technology used by a company becomes the key. In an organizational system, such as the one displayed in Figure 3.7, inputs are regulated by the buffers, which lead them into the technical core. Outputs are moved into the external environment through various departmental activities. In essence, management develops departments (the buffers in Figure 3.7) to protect and facilitate the core technology.

**Figure 3.7** Technology and structure



Source: Technology and Structure, from Thompson's Model of Technology and Structure, from Thompson, J. D. (1967). Organizations in action. New York: McGraw-Hill.

When a threat emerges in the external environment—perhaps a dramatic price increase for raw materials, a natural disaster, a terrorist action, negative publicity, or a new competing technology—company leaders tend to respond by creating a new buffer or department to defend against the threat. When mad cow disease threatened the U.S. beef industry, one response would have been to create a new layer of inspectors to make sure the disease did not infect local herds. Many information technology departments have specially assigned units to defend against virus attacks, bombs, and other malware. More recently, the September 11, 2001, attacks on the United States have led to the creation of a variety of new governmental departments, including the Department of Homeland Security and the Transportation Security Administration.

In summary, organizational design consists of far more than simply drawing an organizational chart. In addition to job specification, company structure consists of the form of departmentalization to be used along with other elements of structure. Beyond authority-responsibility relationships, management teams dictate the degree of delegation to be used on a company-wide basis. The level of centralization or decentralization that is present influences the jobs to be performed and the people selected to perform those jobs. Mechanistic organizational structures match with more standardized operations. Organic structures are best suited to problem-solving situations in which organizations must remain flexible and adaptable. Most forms of structure are relatively standardized, identifying the level of job specialization and the number and types of managers. When an environmental crisis emerges, one natural tendency is to develop a new department or buffer to defend against the threat.

## 3.5 Structural Configurations

Structural configurations constitute the final element of organizational design. Management theorist Henry Mintzberg (1983) suggested five common elements of an organization:

1. *Operating core*. The subordinate workers who perform the basic labor in the organization that is related to the production of goods or services.
2. *Strategic apex*. Top-level managers charged with ensuring that the organization serves its mission in an effective way.
3. *Middle line*. The managers who connect the strategic apex with the operating core.
4. *Technostructure*. The analysts who design, change, plan, or train the operating core.
5. *Support staff*. The specialists providing the direct support services for the organization.

These core elements then dictate the design of the organizational structure. Mintzberg identified five common structures: simple structure, machine bureaucracy, professional bureaucracy, divisional structure, and adhocracy.

### Simple Structure

Small entrepreneurial businesses often use a **simple structure**. The local dry cleaner, the corner restaurant, the auto repair shop, and many others are likely organized as simple structures. This form of organization is dominated by the strategic apex, but it has little formalization or complexity. Almost everyone reports directly to the owner of the business, so the organization chart looks flat and has few, if any, reporting layers. When should this simple structure be used? Typically, when the organization is “small or in the formative stage of development” (Robbins, 1990).

## Machine Bureaucracy

The trademark of the **machine bureaucracy** is standardization. The structure features highly routine operating tasks, typically grouped together into functional departments. There is high formalization, central authority, and decision making flows through a chain of command. Machine bureaucracies work best in large organizations such as manufacturing or service, where high volumes are produced, resulting in a routine. In machine bureaucracy, standardized production work is the norm. These structures use elaborate work rules, considerable numbers of middle-line managers, and distinctive line and staff management configurations. Organizational charts include multiple management layers between top management and the shop floor, where production or services are delivered.

This type of organizational design requires a simple and stable operating environment, which may be its single greatest weakness. Machine bureaucracies have difficulty adapting to changes in the environment, such as significant product changes brought about by market demand. Business history is filled with accounts of large manufacturing firms that could not change to meet emerging environments and then collapsed in bankruptcy. Few people remember Nash Motors (part of Nash-Kelvinator Corporation) or Hudson Motors. Both firms were technology innovators in their time and produced beautiful automobiles. Eventually, however, market instability forced Hudson to merge with Nash-Kelvinator to become American Motors Corporation (AMC), and AMC later merged with Kaiser-Jeep Corporation. In 1987, the Chrysler Corporation acquired AMC/Jeep.

When should a machine structure be used? Typically, this structure is most “efficient when matched with large size, a simple and stable environment, and a technology that contains routine work that can be standardized” (Robbins, 1990, p. 285). This is the typical structure of large manufacturing firms, large insurance firms, and even state and federal prison systems.

## Professional Bureaucracy

A **professional bureaucracy** may be used when an organization depends on highly skilled professionals delivering goods or services at the core of the organization. “Obvious examples include hospitals, school districts, universities, museums, libraries, engineering design firms, social service agencies, and public accounting firms” (Robbins, 1990, p. 289). In this type of structure, professionals self-impose standardization and formalization, often in compliance with governing bodies (e.g., licensing agencies, professional associations, or both) and typically due to the complex operating environment. For example, certified public accounting firms are licensed in most states. They have a professional organization (American Institute of Certified Public Accountants) and several governing bodies, including the Financial Accounting Standards Board and the Securities and Exchange Commission. Accounting professional training incorporates the standards of conduct, legal requirements, and the skills appropriate to the profession. Thus accountants have a degree of autonomy within the organization and in the exercise of professional judgment.

When should professional bureaucracy be used? Typically, this structure is most effective when the environment is stable and complex, and when formalization and standardization are internalized through professionalization.

## Divisional Structure

The **divisional structure** is actually a set of autonomous units, each typically a machine bureaucracy unto itself, coordinated by a central headquarters (Robbins, 1990). The divisional structure



▲ General Motors is an example of a company that uses a divisional structure.

is widely used across the postindustrialized business world. Examples include General Motors, Microsoft, 3M Company, AT&T, General Electric Company, International Business Machines, Coca-Cola Company, United Technologies Corporation, and the Walt Disney Company. Divisions are created (or acquired) to serve a market and are given operating control to make decisions appropriate to meeting the needs of that market. This could be a category of a market. For instance, Chevrolet manufactures automobiles in the mid-priced market category (\$25K to \$40K sales price), whereas Cadillac produces cars for the luxury market category (\$35K to \$70K sales price). Both auto makers are generally autonomous divisions of General Motors.

Among the many weaknesses of the divisional structure are the duplication of activities and the potential for counterproductive inter-market competition for customers. This form is not only inefficient but can limit opportunities for cooperation across market segments and waste resources. It was a significant factor leading to GM's 2009 bankruptcy reorganization and federal government bailout. Now reorganized with fewer divisions and dealers, GM may be able to rebuild its business and value.

When should the form of divisional structure be used? Typically this structure is most effective when the organization selects the diversification strategy; that is, when the organization decides to become a multi-market or multiproduct operation. An important consideration is that the organization's technology must be divisible without causing significant deterioration of the economies of scale it had gained as a machine bureaucracy.

## Adhocracy

Most people working in an organization have experienced a project team, task force, or a cross-functional team. When you participated, you were part of an **adhocracy**. Adhocracies are organic and dynamic in nature and have limited formalization and standardization; they also tend toward decentralized decision making. Little is routine in an adhocracy. Adhocracies last for the life of a project and are disbanded afterward. Adhocracies are largely populated by professionals with high levels of skills and abilities to contribute to the completion of the project. Adhocracies are flexible and adaptable, and that is why they exist at all.

A commercial building construction project is an example of an adhocracy. A project manager takes the plans from the building's architect and assembles a project team that includes internal (assistant superintendent, construction site managers, etc.) and external members (the trades appropriate for the work required). The work begins once a calendar is created and contracts are established. It continues in a planned sequence until all work is complete, final inspection is made, and the building is handed over to the owner-user. The project ends, and all its team members move on to other projects. They may team up for a future project, or they may never see each other again.

A weakness of the adhocracy structure is the stresses it can place on participants during the life of the project. There are limited boundaries and few vertical relationships (boss–subordinate) to mitigate tensions. Many participants have difficulty working in temporary work environments, which are subject to rapid change, or dealing with ambiguity. As a result, adhocracy structures are difficult to establish and to dismantle once they are operating.

Typically, the adhocracy structure is most effective when used for developing nonroutine solutions and projects, and where flexibility is required. This structure works best when solutions or projects have a short life cycle and high levels of professionalism are resident or available. Table 3.5 summarizes the five organizational configurations.

**Table 3.5** Summary of the five organizational configurations

Characteristic	Simple structure	Machine bureaucracy	Professional bureaucracy	Divisional structure	Adhocracy
Specialization	Low	High functional	High social	High functional	High social
Formalization	Low	High	Low	High within divisions	Low
Centralization	High	High	Low	Limited	Low
Environment	Simple and dynamic	Simple and stable	Complex and stable	Simple and stable	Complex and dynamic
General Structural Classification	Organic	Mechanistic	Mechanistic	Mechanistic	Organic

Source: Summary of the Five Organizational Configurations, from Robbins, S. P. (1990). *Organization theory: Structure, design, and applications*, p. 305. Upper Saddle River, NJ: Prentice Hall.

## The Importance of Organizational Goals in Structural Design

Organizations exist for a purpose. The purpose of the organization, or the plan, also influences the structure of the organization. The purpose of a small shop operator located on Main Street in your hometown likely will be to meet small capital financing needs, design an informal mission, and employ less than 25 employees who report directly to the owner. The planning process of this small shop focuses on the needs of its community by maintaining inventory, appropriate capital availability, and a sensitivity to the community's standards. At the other end of the spectrum is a multiunit retail operator with 100,000-square-foot, large-scale retail stores located in and across several states or the entire nation. A company of this kind may have 10,000 employees, high capital demands, a well-defined mission statement, and sophisticated marketing needs. It likely has a long-range strategic plan, complex operational plans, and several levels of management, each with very specific performance expectations.

Organizational design considerations remain largely the same for profit-seeking and nonprofit organizations. Both seek to create organizations that are both efficient and effective. As noted in Chapter 1, an efficient organization delivers services in a timely fashion with few wasted resources or wasted time. An effective organization provides products and services that best meet customer needs or the needs of the overall community. Those involved in the organizing process seek to match the structure with the type of organizational involved and its goals. Four common goals in the area of organizational design that help achieve efficiency and effectiveness are

1. Managing complexity
2. Differentiation and integration
3. Managing interdependence
4. Creating and overseeing boundary-spanning activities

### **Managing Complexity**

Organizational complexity is a term used to describe the number of diverse and autonomous but interrelated organizational components or parts. The definition specifies that complexity increases in relation to the number and types of interrelationships between individuals, to the effects of these relationships on the organization, and to the organization's relationships with entities in the external environment (Hage & Aiken, 1970). In essence, *complexity* means "complicated." Such complications abound in many businesses. Organizational design assists managers who deal with substantial degrees of complexity by developing the right kinds of units (departments) to respond to each need and then creating managerial programs and protocols to oversee and coordinate the activities of all units.

### **Differentiation and Integration**

Lawrence and Lorsch (1967) introduced the concepts of differentiation and integration to the study of organizational structure. *Differentiation* acknowledges that various elements of an organization provide unique specialties and activities. For example, a health care organization of any size has differentiation. Various types of physicians (surgeons, neurologists, ophthalmologists, internists), nurses, insurance experts, and many others deliver diverse forms of health care and support service activities. Effective organizations recognize and accommodate such differences through the type of structure in place and the use of managerial actions and directives within each specialized department. Some structures are mechanistic and/or centralized in nature while others are organic and decentralized, based on the type of unit involved.

*Integration* recognizes that these unique and specialized organizational units must also work in harmony with each other to benefit the overall well-being of the total institution. Increasing differentiation can spawn greater antagonism among individual units, as Stan Richards noted in the "Management in Practice" box featuring The Richards Group. Effective organizations find ways to improve relations among the departments involved.

Perhaps the best analogy for differentiation and integration is that of an orchestra. The instruments are highly unique from each other (differentiation). The conductor's role is to make sure each instrumental section performs the music in a well-coordinated fashion, beginning and ending its part at the right time, at the appropriate volume, and in tune with the rest of the orchestra (integration). Effective organizational design helps achieve these goals.

### **Managing Interdependence**

Many industries and companies experience high levels of interdependence, where various units rely on each other to operate. Interdependence increases as tasks become more interconnected; when the level of uncertainty rises; when units must share resources; and as the size of the organization grows.

Structural design can assist in making sure that lines of authority and responsibility are such that units are able to work in a coordinated fashion. In the case of sequential interdependence, where one person or group's endpoint becomes the next person or group's beginning, work flows are established so that bottlenecks do not occur. Sequential interdependence occurs on assembly

lines but also in other situations, such as when salespeople file their monthly reports with the accounting office to finalize income summaries and other statements.

In the situation where the goal is reciprocal interdependence, the model assumes a “back and forth” form. Reciprocal interdependence occurs when physicians exchange ideas with each other about how to treat a patient, including how to handle multiple injuries in an emergency care situation, and organizational design facilitates these interactions. Pooled interdependence occurs when units work near each other but rarely interact. Some companies operate using a series of stand-alone units. In those organizations, another goal of organizational design can be to accommodate interdependent relationships (Thompson, 1967).

### ***Creating and Overseeing Boundary Spanning***

Boundary spanning occurs when a person or group goes beyond an internal or external boundary to interact with those in a separate internal or external unit. When a negotiator on behalf of the manufacturing company bargains with a union, the mediator working to coordinate the bargaining session becomes a boundary spanner. A manager who coordinates the efforts of a company’s marketing and sales department by assigning employees to appear in commercials is serving as a boundary spanner. The individual who makes the case for donations to a nonprofit organization to outside individuals and organizations becomes an external boundary spanner. An accountant or attorney negotiating with the federal government over a tax filing becomes a boundary spanner (Thompson, 1967).

Organizational design prescribes both internal and external boundaries. Authority and responsibility relationships help oversee boundary-spanning activities. Institutions with effective internal and external mediators and mediating processes are more likely to succeed over time, making this a key goal in the area of organizational design. Mediation of this type allows internal units to function more effectively with one another. Mediation with external organizations and the public helps protect the organization from various types of threats present in the environment, such as tax audits or surprise price increases by suppliers.

## **Summary**

Organizational structure is a formal system of task and reporting relationships that coordinates the activities of employees so that they can work together to achieve organizational goals. Organizational design is the process by which managers make specific organizing choices that result in a particular kind of structure for the company. Organizational design involves numerous activities that include designing jobs, departmentalizing decisions, completing the company’s structure, and outlining the best structural configuration.

Job design is the process of assigning tasks to jobs. It begins with job analysis, which results in the assignment of individual tasks to specific jobs. Then, a job description outlining the tasks and duties can be created. Finally, a job specification identifies the eligibility requirements or qualifications needed to perform a job. Departmentalization is an organizational tool that involves placing various jobs into different departments or divisions. The primary forms of departmentalization include those by function, product, customer, geographic region, or strategic business unit, as well as by the matrix approach. Managers select the form of departmentalization that best matches each company’s unique operating needs.

An organization’s structure is complete when lines of authority and responsibility have been identified. Authority consists of the right to direct activities and permission to act or make decisions.

Responsibility is the obligation to complete tasks as assigned by reporting to a specific supervisor. Parity of authority and responsibility means that equal levels of both are placed in each job or position in the organization.

Managers then conduct organizational operations by featuring centralization, decentralization, specialization, formalization, and degrees of mechanistic or organic flexibility. Each structure matches the specific circumstances of the company involved. When a crisis arises, one natural response is to create additional structure or a new department designed to defend against the threat.

Structural configurations related to various business enterprises include a simple structure, machine bureaucracy, professional bureaucracy, divisional structure, or adhocracy. Each form facilitates the operation of a specific type of enterprise. Organizational goal-setting processes lead to the most efficient and effective forms of organizational decision.

### CASE STUDY

#### *The New Venture*

Monica Kellogg was about to embark on a new and exciting aspect of her entrepreneurial venture. She began her career as a salesperson vending basic insurance products to individuals. Eventually she was able to open her own office, catering to individual consumers seeking life insurance, health insurance, car/vehicle/boat insurance, and other basic insurance services. She employed three office workers to assist in filing claims and taking care of additional responsibilities, including changes in policies when her clients married, divorced, bought new cars, moved, disputed payments on claims, and so forth.

Now, however, her insurance provider offered Monica the opportunity to increase her business. She could expand her clientele to include business customers. The new sets of products would include liability insurance of all types (including for health care providers), health insurance policies for entire companies rather than individual purchasers, fleet insurance for vehicles, and other major insurance policies tailored to businesses.

To meet the needs of this new level of service, Monica hired an insurance sales professional to tend to all of her individual clients. She also hired an “office manager” to supervise that portion of her business. She would be traveling across the state and in two adjoining states to make sales presentations to small businesses and a few larger corporations. She decided to hire an additional employee to focus entirely on corporate rather than individual client needs.

To begin the process, Monica and her assistant traveled to the insurance company’s home office for a monthlong training session. The primary instructor noted, “You folks are now in an entirely different kind of insurance business. Meeting the needs of a major company is different from serving individual members of the public. You will require more sophisticated sales skills, negotiation skills, and increased knowledge of the ways insurance packages differ from products sold to John Q. Public.” Monica was excited by the challenge.

Besides hiring three new, more specialized employees, Monica purchased additional office space to house the ongoing and new parts of her operation. She dedicated half the space to individual customers and the other to business clients. A wall would separate the two operations to grant both privacy and some level of noise control, especially for those who conducted business by telephone.

*(continued)*

After two months, it was time to begin the new venture. Monica worried about maintaining control over her newly expanded operation. She also knew that happy customers represented the key to a successful future. While the scope of the business had changed, it still boiled down to one-on-one relationships with every customer.

### Discussion Questions

1. What type of approach should Monica use as part of the job analysis component of creating these new positions in her company?
2. In terms of departmentalization, should her company move away from a functional approach to some other type? If so, what type?
3. What should happen to the degree of decentralization in the insurance office?
4. What role does increasing complexity play in the organizational structure to be featured in this newly expanded operation? Explain your answer.

## Key Terms

**adhocracy** Organizations that are organic and dynamic in nature and have limited formalization and standardization; they also tend toward decentralized decision making.

**authority** The right to direct with permission to act.

**centralization/decentralization** The degree of delegation of decision making, authority, and power within an organization.

**departmentalization** The organizing of people into different departments or divisions in which collections of tasks are placed together, such as accounting, marketing, and production.

**divisional structure** An organizational structure featuring a set of autonomous units, each typically a machine bureaucracy unto itself, coordinated by a central headquarters.

**formalization** The presence of rules and procedures.

**job** A set or series of tasks performed by an individual on behalf of an organization.

**job design** What occurs when managers determine the tasks needed to be done, who will do them, and what selection criteria will be used to choose employees and place them on the job.

**machine bureaucracy** A form of organizational structure featuring highly routine operating tasks typically grouped together into functional departments with high formalization, central authority, and the decision making that flows through a chain of command.

**mechanistic organization** An organizational structure characterized by high use of rules and procedures, a greater number of levels in the organization, and formal relationships between workers; as a result, it is a less flexible method of operation.

**mechanization/computerization** A measure of the reliance on computers and technology to maintain operations.

**organic structure** An organizational structure that employs few rules and procedures, has a small number of organizational levels and ranks, allows for informal relationships among workers and supervisors, and is much more flexible and adaptable as a result.

**organizational design** The process by which managers make specific organizing choices that result in the particular kind of organizational structure they will use.

**organizational structure** A formal system of task and reporting relationships that coordinates the activities of members so that they work together to achieve organizational goals.

**professional bureaucracy** An organizational structure in which professionals self-impose standardization and formalization, often in compliance with governing bodies.

**responsibility** (or *accountability*) The obligation to complete tasks as assigned by an employee's immediate supervisor.

**simple structure** An organizational structure dominated by a strategic apex but having little formalization or complexity; almost everyone reports directly to the owner of the business, and the organization chart is flat because there are few, if any, reporting layers.

**standardization** The use of a series of job titles that are exactly the same, and the assignment of workers to perform the same activities.

**task** An action or activity performed by an employee as part of his or her job.

## Critical Thinking

### Review Questions

1. Define organizing, organizational structure, and organizational design.
2. What is a job?
3. What are the three steps of job design?
4. Define departmentalization, and name the six major forms.
5. What types of companies match with each of these forms of departmentalization?
  - a. function
  - b. product
  - c. customer
  - d. geographic area
  - e. matrix
6. Define authority and responsibility.
7. Define centralization/decentralization, standardization, formalization, and mechanization/computerization.
8. Define mechanistic and organic forms of structure.
9. What four characteristics apply to most organizations, according to Max Weber?
10. What kinds of companies should employ the simple form of organizational structure?
11. What kinds of companies should use the machine bureaucracy structure?
12. What kinds of organizations should feature a professional bureaucracy structure?
13. What kinds of firms should use the divisional form of structure?

14. What types of organizations are best suited to the adhocracy form of structure?
15. What are some common goals of the organizational design processes?

### Analytical Exercises

1. An organization's structure has been likened to the skeleton of the body. To continue that analogy, what part is the company's mission? What parts are individual jobs? What parts are the departments?
2. Briefly describe how a company such as FedEx or UPS could use the time-and-motion study process in conducting its operations in each of these areas:
  - receiving packages for delivery at designated stores
  - sorting packages
  - making deliveries to individual customers and businesses
3. Create job specifications for the following positions:
  - laborer at Burger King
  - heavy equipment operator for a construction company
  - salesperson for tractors and farm equipment
  - information technology specialist to be a web master
4. Which form of departmentalization is the best match for the following companies? Explain your answer.
  - local dry cleaner
  - T.G.I. Friday's
  - Greyhound Bus Lines
  - GEICO Insurance
  - Ford Motor Company International
5. Marjorie is the chief accounting officer in her company. She has five junior accountants under her supervision. She serves as head of the workplace safety committee in the firm. She has expertise in the area of internal auditing, and lately the firm's CEO has asked her numerous questions about the firm's most recent audit. What types of authority does Marjorie hold in her current situation? Can you think of some ways that the forms of authority may conflict with one another? Explain your answer.
6. Indicate which of the following personality characteristics would fit with a centralized and mechanistic organization, and which would be a better match in a decentralized and organic organization. Explain your choices.
  - high need for autonomy
  - high need for continuing performance feedback
  - enjoys working with others
  - enjoys problem solving
  - prefers direction and role clarity

7. "Among the many weaknesses of the divisional structure are the duplication of activities and potential for counterproductive inter-market competition for customers. This form is not only inefficient but can limit opportunities for cooperation across market segments and waste resources." This statement applies to conglomerate organizations. Can you think of a structure that is better suited to multiproduct, multiservice companies? Defend your answer.
8. Explain how the following structures somewhat match each other:
  - functional structure with simple structure
  - machine bureaucracy with centralized, mechanistic structure
  - professional bureaucracy with decentralized, organic structure
  - divisional structure with departmentalization by product