

Case Incident 1

Can A Structure Be Too Flat?

Steelmaker Nucor likes to think it has management figured out. And with good reason. It is the darling of the business press. Its management practices are often favorably reviewed in management texts. And it's been effective by nearly any business metric.

There's one fundamental management practice that Nucor doesn't appear to have mastered: how to structure itself.

Nucor has always prided itself on having just three levels of management separating the CEO from factory workers. With Nucor's structure, plant managers report directly to CEO Dan DiMicco. As Nucor continues to grow, though, DiMicco is finding it increasingly hard to maintain this simple structure. So, in 2006 DiMicco added another layer of management, creating a new layer of five executive vice presidents. "I needed to be free to make decisions on trade battles," he said.

Still, even with the new layer in its structure, Nucor is remarkably lean and simple. U.S. Steel employs 1,200 people at its corporate headquarters, compared to a scant 66 at Nucor's. At Nucor, managers still answer their own phone calls and e-mails, and the firm has no corporate jet. Even companies as comparatively lean as Toyota appear fat and complicated compared to Nucor. "You're going to get at least ten layers at Toyota before you get to the president," says a former Toyota engineer.

Questions

1. How does the Nucor case illustrate the limitations of the simple organizational structure?
Answer: With only a few layers of management, there is a wide span of control. As Nucor grows, this structure may prove inadequate due to information overload and decision making all centered on a few managers. In addition, any one essential manager that gets sick or is away from work for any period could be traumatic to the organization.
2. Do you think other organizations should attempt to replicate Nucor's structure? Why or why not?
Answer: Although lean and simple, it may not be easy or effective to replicate it. Simple structures work best in smaller organizations because of its flexibility and simplicity.
3. Why do you think other organizations have developed structures much more complex than Nucor's?
Answer: Many organizations structure in a more bureaucratic way since it is a traditional structure. Being highly routine, many employees function better in structured and defined departments with specific rules and policies. Much can be learned from Nucor, though, as they have been a leader in their industry.
4. Generally, organizational structures tend to reflect the views of the CEO. As more and more "new blood" comes into Nucor, do you think the structure will begin to look like that of other organizations?

Answer: Probably, the structure will need to adjust to the growth of the company. New management often brings their styles and ideas with them from other companies and they may change the structure if they are not comfortable in a simple structure.

Source: P. Glazer, "It's Not Easy Being Lean," *Wall Street Journal* (June 19, 2006), pp. B1, B3.

Case Incident 2

Siemens' Simple Structure—Not

There is perhaps no tougher task for an executive than to restructure a European organization. Ask former Siemens CEO Klaus Kleinfeld.

Siemens, with 77 billion Euros in revenue in 2008, some 427,000 employees, and branches in 190 countries, is one of the largest electronics companies in the world. Although the company has long been respected for its engineering prowess, it's also derided for its sluggishness and mechanistic structure. So when Kleinfeld took over as CEO, he sought to restructure the company along the lines of what Jack Welch did at General Electric. He has tried to make the structure less bureaucratic so decisions are made more quickly. He spun off underperforming businesses. And he simplified the company's structure.

Kleinfeld's efforts drew angry protests from employee groups, with constant picket lines outside his corporate offices. One of the challenges of transforming European organizations is the customary active participation of employees in executive decisions. Half the seats on the Siemens board of directors are allocated to labor representatives. Not surprisingly, the labor groups did not react positively to Kleinfeld's GE-like restructuring efforts. In his efforts to speed those efforts, labor groups alleged, Kleinfeld secretly bankrolled a business-friendly workers' group to try to undermine Germany's main industrial union.

Due to this and other allegations, Kleinfeld was forced out in June 2007 and replaced by Peter Löscher. Löscher has found the same tensions between inertia and the need for restructuring. Only a month after becoming CEO, Löscher was faced with a decision whether to spin off the firm's underperforming 10 billion-Euro auto parts unit, VDO. He had to weigh the forces for stability, which want to protect worker interests, against U.S.-style pressures for financial performance. One of VDO's possible buyers is a U.S. company, TRW, the controlling interest of which is held by Blackstone, a U.S. private equity firm. German labor representatives have derided such private equity firms as "locusts." When Löscher decided to sell VDO to German tire giant Continental Corporation, Continental promptly began to downsize and restructure the unit's operations.

Löscher has continued to restructure Siemens. In mid- 2008, he announced elimination of nearly 17,000 jobs worldwide. He also announced plans to consolidate more business units and reorganize the company's operations geographically. "The speed at which business is changing worldwide has increased considerably, and we're orienting Siemens accordingly," Löscher said.

Since the switch from Kleinfeld to Löscher, Siemens has experienced its ups and downs. Since 2008, its stock price has fallen 26 percent on the European stock exchange and is down 31 percent on the New York Stock Exchange. That is better than some competitors, such as France's Alcatel-Lucent (down 83 percent) and General Electric (down 69 percent), and worse than others, such as IBM (up 8 percent) and the Swiss/Swedish conglomerate ABB (down 15 percent).

Though Löscher's restructuring efforts have generated far less controversy than Kleinfeld's, that doesn't mean they went over well with all constituents. Of the 2008

job cuts, Werner Neugebauer, regional director for a union representing many Siemens employees, said, “The planned job cuts are incomprehensible nor acceptable for these reasons, and in this extent, completely exaggerated.”

When asked by a reporter whether the cuts would be controversial, Löscher retorted, “I couldn’t care less how it’s portrayed.” He paused a moment, then added, “Maybe that’s the wrong term. I do care.”

Questions

1. What do Kleinfeld’s efforts at Siemens tell you about the difficulties of restructuring organizations?

Answer: Global restructuring is difficult. The guide to global structures at <http://74.125.47.132/search?q=cache:E0UAS88Wd0J:macy.ba.ttu.edu/Fall%252006/5371/overview%2520of%2520eight%2520types%2520of%2520structure%2520for%2520110106.ppt+global+organizational+structures&cd=16&hl=en&ct=clnk&gl=us&client=safari> suggests criteria that includes organizational and local cultures into labor relations. These vary widely and must be addressed uniquely to restructure.

2. Why do you think Löscher’s restructuring decisions have generated less controversy than did Kleinfeld’s?

Answer: Löscher’s efforts focused on attempts to keep local organizational culture in place. Kleinfeld’s efforts seemed more formula in implementation and less sensitive to individuals. Although the results were similar, Löscher’s effort was probably seen as more appreciative of the worker’s plight.

3. Assume a colleague read this case and concluded “This case proves restructuring efforts do not improve a company’s financial performance.” How would you respond to this statement?

Answer: The colleague’s position does recognize long-term outcome of performance. Any restructuring carries a period of productivity drop because of the changes implemented. These changes include personnel, job definitions, job processes, and departmental relationships. All of these can cause drops in productivity in initial implementation that will improve after the “learning curve” is completed and new processes and relationships become the norm.

4. Do you think a CEO who decides to restructure or downsize a company takes the well-being of employees into account? Should he or she do so? Why or why not?

Answer: The answer will depend on student beliefs and opinions. In general most students will say that consideration of employees is more important. However, students should see that the CEO’s responsibility is to shareholders. A balance must be made between employee consideration and shareholder equity. Over consideration in either direction can create an unmanageable situation for the CEO.

Sources: Based on A. Davidson, “Peter Löscher Makes Siemens Less German,” *The Sunday Times* (June 29, 2008), business.timesonline.co.uk; G. Frey, “Siemens Cutting 17K Jobs Worldwide to Cut Costs,” *Fox News* (July 8, 2008), www.foxnews.com; M. Esterl and D. Crawford, “Siemens CEO Put to Early Test,” *Wall Street Journal* (July 23, 2007), p. A8; and J. Ewing, “Siemens’ Culture Clash,” *BusinessWeek* (January 29, 2007), pp. 42–46.

Instructor's Choice

Applying the Concepts

If one were to chart the growth spurts of Volkswagen over the past three decades, the chart would look like a roller coaster. Plans were for former BMW boss Bernd Pischetsrieder to fix ailing VW when he came aboard in 2002. However, best-laid plans often go astray. VW's share price is down almost 50% and profits fell by 36%. What is wrong at VW? First, VW has always been able to charge more for its cars because of quality, innovation, styling, and an implied lifetime guarantee. In recent years, however, consumers have decided that the company is going to have to come up with more value for the dollar if loyalty is to be retained. Second, sales in China's booming market (VW was one of the first car makers on the scene in this giant economy) have plummeted and GM has driven VW from its number one ranking. Third, cost-cutting moves have not worked. Fourth, VW uncharacteristically has labor pains. The CEO has had little luck in reversing these problems because his consensus management techniques are having little impact on VW's change-resistant bureaucracy. Over half of the company's 100 managers are not used to making their own decisions. This spells even more trouble for the company in the year ahead.

- Using a search engine of your own choosing, investigate Volkswagen's performance over the past two years. Write a brief summary of their fortunes and misfortunes.
- Visit the Volkswagen Web site at www.vw.com. From information supplied, characterize the company's existing structure.
- Based on what you have observed in "a" and "b" above, suggest a new organizational structure for the company. Cite any assumptions that you made when you developed your structure.

Instructor Discussion

Students will be able to find a wealth of information on VW (particularly negative information because of their recent performance). A nice summary article appears in *BusinessWeek* (see August 9, 2004 "Volkswagen Slips into Reverse" pp. 40). Students are free to pick any organizational form that they believe is best given the existing situation. However, they should be aware that the current CEO is not having much success with modern structures as the company seems to be very tradition-bound at present. Students might also interview a local VW dealer for opinions.



EXPLORING OB TOPICS ON THE WORLD WIDE WEB

Search Engines are our navigational tool to explore the WWW. Some commonly used search engines are:

www.goto.com
www.lycos.com

www.google.com
www.hotbot.com

www.excite.com
www.bing.com

1. The chapter discusses span of control and the various advantages and disadvantages of wide vs. narrow. Let us see how that looks in actual numbers. First, determine how many hierarchical levels there are in at least three organizations of varying sizes that you are currently involved with. One could be the college or university you attend, another where you work, and finally a club or religious institution you belong to. Or, for one of the choices, select a non-profit organization you have some interest in. (For example, Red Cross, MDS, American Cancer Society, etc.). Obtain their hierarchical structure either by searching the WWW (most annual reports have information on this), calling or visiting them, or drawing the structure yourself if you are involved in the organization. Use www.google.com to help you search.
2. What factors influence virtual teams? For a short analysis point to: <http://www.seanet.com/~daveg/articles.htm>. Write a short paragraph or two outlining why you would or would not like working in a virtual environment. Do you see a time later in your career when you would prefer working in a virtual team? Why or why not?