

Chapter 15

Foundations of Organization Structure

(Click on the title while connected to the Internet for online video teaching notes)

LEARNING OBJECTIVES (PPT15-1)

After studying this chapter, students should be able to:

1. Identify the six elements of an organization's structure.
2. Identify the characteristics of a bureaucracy.
3. Describe a matrix organization.
4. Identify the characteristics of a virtual organization.
5. Show why managers want to create boundaryless organizations.
6. Demonstrate how organizational structures differ and contrast mechanistic and organic structural models.
7. Analyze the behavioral implications of different organizational designs.
8. Show how globalization affects organizational structure.

INSTRUCTOR RESOURCES

Text Exercises

- An Ethical Choice: I Fell into a Big Black Hole
- International OB: Structuring Organizations across National Borders
- Myth or Science? People Are Our Most Important Asset
- Point/CounterPoint: Mergers Are an Excellent Way to Get Rid of Employees
- Questions for Review
- Experiential Exercise: Authority Figures
- Ethical Dilemma: How Much Should Directors Direct?

Text Cases

- Case Incident 1: Can a Structure Be Too Flat?
- Case Incident 2: Siemens' Simple Structure–Not

Instructor's Choice

This section presents an exercise that is NOT found in the student's textbook. Instructor's Choice reinforces the text's emphasis through various activities. Some Instructor's Choice activities are centered on debates, group exercises, Internet research, and student experiences. Some can be used in-class in their entirety, while others require some additional work on the student's part. The course instructor may choose to use these at anytime throughout the class—some may be more effective as icebreakers, while some may be used to pull together various concepts covered in the chapter.



WEB EXERCISES

At the end of each chapter of this Instructor's Manual, you will find suggested exercises and ideas for researching the WWW on OB topics. The exercises "Exploring OB Topics on the Web" are set up so that you can simply photocopy the pages, distribute them to your class, and make assignments accordingly. You may want to assign the exercises as an out-of-class activity or as lab activities with your class.

SUMMARY AND IMPLICATIONS FOR MANAGERS

The theme of this chapter is that an organization's internal structure contributes to explaining and predicting behavior. That is, in addition to individual and group factors, the structural relationships in which people work has a bearing on employee attitudes and behavior. What's the basis for this argument? To the degree that an organization's structure reduces ambiguity for employees and clarifies concerns such as "What am I supposed to do?" "How am I supposed to do it?" "To whom do I report?" and "To whom do I go if I have a problem?" it shapes their attitudes and facilitates and motivates them to higher levels of performance.

Of course, structure also constrains employees to the extent that it limits and controls what they do. Organizations structured around high levels of formalization and specialization, strict adherence to the chain of command, limited delegation of authority, and narrow spans of control give employees little autonomy. Controls in such organizations are tight, and behavior tends to vary within a narrow range. Structures with limited specialization, low formalization, and wide spans of control provide employees greater freedom and thus are characterized by greater behavioral diversity.

Exhibit 15-10 summarizes what we've discussed. Strategy, size, technology, and environment determine the type of structure an organization will have. For simplicity's sake, we can classify structural designs as either mechanistic or organic. The specific effect of structural designs on performance and satisfaction is moderated by employees' individual preferences and cultural norms.

Finally, technology makes some organizational structures increasingly amorphous. This allows a manager the flexibility to take employee preferences, experience, and culture into account and design work systems that truly motivate.

Chapter 15 begins with a discussion about the restructuring of Chrysler Corp. during the recent economic downturn. When Chrysler declared bankruptcy, it entered into a partnership with Fiat of Italy. The new CEO, Sergio Marchionne, implemented major structural changes in order to turn Chrysler around. These included his occupying an office on the fourth floor instead of in the office tower and announcing that all units of Chrysler would be considered separate profit/loss centers. And, he announced that the heads of the units would be marketing oriented instead of engineer oriented as they had been in the past. He achieved success at Fiat. He is now working to save Chrysler.

BRIEF CHAPTER OUTLINE

- I. What Is Organizational Structure? (ppt15-2)
 - A. Introduction
 1. An organizational structure defines how job tasks are formally divided, grouped, and coordinated.
 2. There are six key elements (Exhibit 15-1):
 - a. Work specialization
 - b. Departmentalization
 - c. Chain of command
 - d. Span of control
 - e. Centralization and decentralization
 - f. Formalization
 - B. Work Specialization (ppt15-3)
 1. Henry Ford became rich and famous by building automobiles on an assembly line, demonstrating that work can be performed more efficiently by using a work specialization strategy.
 2. By the late 1940s, most manufacturing jobs in industrialized countries were being done this way. Management saw this as a means to make the most efficient use of its employees' skills.
 3. Managers also looked for other efficiencies that could be achieved through work specialization.
 4. For much of the first half of this century, managers viewed work specialization as an unending source of increased productivity. By the 1960s, there became increasing evidence that a good thing can be carried too far.
 5. The human diseconomies from specialization—boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover—more than offset the economic advantages. (Exhibit 15-2) (ppt15-4)
 - C. Departmentalization (ppt15-5)
 1. Grouping jobs together so common tasks can be coordinated is called departmentalization.
 2. One of the most popular ways to group activities is by functions performed.
 3. Tasks can also be departmentalized by the type of product the organization produces.
 4. Another way to departmentalize is on the basis of geography or territory.
 5. Process departmentalization offers a basis for the homogeneous categorizing of activities.
 6. Process departmentalization can be used for processing customers as well as products.
 7. The assumption is that customers in each department have a common set of problems and needs that can best be met by having specialists for each.
 8. Large organizations may use all of the forms of departmentalization that we have described.
 - D. Chain of Command (ppt15-6)
 1. Thirty years ago, the chain-of-command was a basic cornerstone in the design of organizations.
 2. The chain of command is "an unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom."
 3. It answers the questions: "To whom do I go if I have a problem?" and "To whom am I responsible?"
 4. Two complementary concepts: authority and unity of command.

- a. Authority—"the rights inherent to management to give orders and expect the orders to be obeyed."
 - b. The unity-of-command principle helps preserve the concept of an unbroken line of authority. It states that a person should have only one superior to whom he/she is directly responsible.
5. Times change, and so do the basic tenets of organizational design. The concepts of chain of command have less relevance today because of technology and the trend of empowering employees.
- E. Span of Control (ppt15-7)
1. How many employees a manager can efficiently and effectively direct is an important question.
 2. All things being equal, the wider or larger the span, the more efficient the organization.
 3. Exhibit 15-3 illustrates that reducing the number of managers leads to significant savings. (ppt15-8)
 4. Wider spans are more efficient in terms of cost.
 5. The trend in recent years has been toward wider spans of control.
- F. Centralization and Decentralization (ppt15-9)
1. Centralization refers to the degree to which decision making is concentrated at a single point in the organization. A centralized organization is inherently different structurally from one that is decentralized.
 2. There are organizations where decision making is pushed down to those managers who are closest to the action. This is highly decentralized.
- G. Formalization (ppt15-10)
1. Formalization refers to the degree to which jobs within the organization are standardized.
 2. Low formalization—job behaviors are relatively nonprogrammed, and employees have a great deal of freedom to exercise discretion in their work.
 3. The degree of formalization can vary widely between organizations and within organizations.
- II. Common Organizational Designs
- A. The Simple Structure (ppt15-11)
1. The simple structure is characterized most by what it is not rather than what it is:
 - a. It is not elaborated.
 - b. It has a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
 - c. The simple structure is a "flat" organization; it usually has only two or three vertical levels.
 - d. One individual has the decision-making authority.
 2. The simple structure is most widely practiced in small businesses in which the manager and the owner are one and the same. (See Exhibit 15-4, an organization chart for a retail men's store.)
 3. The strength of the simple structure lies in its simplicity. It is fast, flexible, inexpensive to maintain, and accountability is clear.
 4. One major weakness is that it is difficult to maintain in anything other than small organizations.
 5. It becomes increasingly inadequate as an organization grows because its low formalization and high centralization tend to create information overload at the top.
 6. When an organization begins to employ 50-100 people, it is very difficult for the owner-manager to make all the choices.
- B. The Bureaucracy (ppt15-12)
1. Standardization—the key concept for all bureaucracies

2. The bureaucracy is characterized by:
 - a. Highly routine operating tasks achieved through specialization
 - b. Very formalized rules and regulations
 - c. Tasks that are grouped into functional departments
 - d. Centralized authority
 - e. Narrow spans of control
 - f. Decision making that follows the chain of command
 3. Its primary strength is in its ability to perform standardized activities in a highly efficient manner. (ppt15-13)
 4. Weaknesses
- C. The Matrix Structure (ppt15-14)
1. It is used in advertising agencies, aerospace firms, research and development laboratories, construction companies, hospitals, government agencies, universities, management consulting firms, and entertainment companies.
 2. It combines two forms of departmentalization—functional and product.
 3. Product departmentalization facilitates coordination.
 4. It provides clear responsibility for all activities related to a product, but with duplication of activities and costs.
 5. The most obvious structural characteristic of the matrix is that it breaks the unity-of-command concept. (Exhibit 15–5 shows the matrix form as used in a college of business administration.)
 6. Its strength is its ability to facilitate coordination when the organization has a multiplicity of complex and interdependent activities.
 7. The dual lines of authority reduce tendencies of departmental members to protect their worlds.
 8. It facilitates the efficient allocation of specialists.
 9. The major disadvantages of the matrix lie in the confusion it creates, its propensity to foster power struggles, and the stress it places on individuals.
 10. Violation of the unity-of-command concept increases ambiguity that often leads to conflict.
 11. Confusion and ambiguity also create the seeds of power struggles.
 12. Reporting to more than one boss introduces role conflict, and unclear expectations introduce role ambiguity.

III. New Design Options

- A. The Virtual Organization (ppt15-15)
1. The essence of the virtual organization is that it is typically a small, core organization that outsources major business functions.
 2. When large organizations use the virtual structure, they frequently use it to outsource manufacturing.
 3. Virtual organizations create networks of relationships that allow them to contract out business functions where management feels that others can do it better or more cheaply.
 - a. Exhibit 15–6 shows a virtual organization in which management outsources all of the primary functions of the business. The dotted lines in this exhibit represent those relationships typically maintained under contracts. In essence, managers in virtual structures spend most of their time coordinating and controlling external relations, typically by way of computer-network links.
 - b. The major advantage to the virtual organization is its flexibility.
- B. The Boundaryless Organization (ppt15-16)
1. General Electric's former chairman, Jack Welch, coined the term boundaryless organization.

2. The boundaryless organization seeks to eliminate the chain of command, have limitless spans of control, and replace departments with empowered teams.
 3. Because it relies so heavily on information technology, some call this structure the T-form (or technology-based) organization.
 4. By removing vertical boundaries, management flattens the hierarchy and minimizes status and rank.
 5. Functional departments create horizontal boundaries.
 6. The one common technological thread of boundaryless organization is networked computers.
- C. The Learner Organization: Organizational Downsizing
1. The goal of the new organizational forms we've described is to improve agility by creating a lean, focused, and flexible organization.
 2. Downsizing is a systematic effort to make an organization leaner by selling off business units, closing locations, or reducing staff.
 3. Some companies focus on lean management techniques to reduce bureaucracy and speed decision making.
 4. Despite the advantages of being a lean organization, the impact of downsizing on organizational performance has been very controversial.
 5. Part of the problem is the effect of downsizing on employee attitudes.
 6. In companies that don't invest much in their employees, downsizing can also lead to more voluntary turnover so vital human capital is lost.
 7. Companies can reduce negative impacts by preparing for the post-downsizing environment in advance, thus alleviating some employee stress and strengthening support for the new strategic direction.
 - a. The following are some effective strategies for downsizing.
 - i. Investment
 - ii. Communication
 - iii. Participation
 - iv. Assistance
 8. Companies that make themselves lean can be more agile, efficient, and productive—but only if they make cuts carefully and help employees through the process.
- IV. Why Do Structures Differ?
- A. Introduction (ppt15-17)
1. The mechanistic model (Exhibit 15-7)—synonymous with the bureaucracy—has extensive departmentalization, high formalization, a limited information network (mostly downward), and little participation in decision making.
 2. The organic model (Exhibit 15-7) looks a lot like the boundaryless organization; it uses cross-hierarchical and cross-functional teams, low formalization, a comprehensive information network, and high participation in decision making.
 3. Why are some organizations structured along mechanistic lines while others are organic?
- B. Strategy
1. An organization's structure is a means to help management achieve its objectives. Objectives derive from the organization's overall strategy.
 2. Structure should follow strategy. (Exhibit 15-8)
 3. Most current strategy frameworks focus on three strategy dimensions (ppt15-18)—innovation, cost minimization, and imitation—and the structural design that works best with each.
 - a. An innovation strategy means a strategy for meaningful and unique innovations.

- b. A cost-minimization strategy tightly controls costs, refrains from incurring unnecessary innovation or marketing expenses, and cuts prices in selling a basic product.
 - c. Imitators combine the two structures—a mechanistic structure (in order to maintain tight controls and low costs) and organic subunits (to pursue new lines of business).
- C. Organizational Size (ppt15-19)
- 1. There is considerable evidence to support that an organization's size significantly affects its structure.
 - 2. Large organizations—employing 2,000 or more people—tend to have more specialization, more departmentalization, more vertical levels, and more rules and regulations than do small organizations.
 - 3. The impact of size becomes less important as an organization expands.
- D. Technology (ppt15-19)
- 1. The term refers to how an organization transfers its inputs into outputs.
 - 2. Technologies can be differentiated by degree of routineness:
 - 3. The relationships between technology and structure:
 - a. Routine tasks are associated with taller and more departmentalized structures.
 - b. The relationship between technology and formalization, however, is stronger.
 - c. Routineness is associated with the presence of formalized documentation.
 - 4. There is an interesting relationship between technology and centralization:
 - a. Routine technologies seem to be associated with a centralized structure.
 - b. Nonroutine technologies, which rely more heavily on the knowledge of specialists, would be characterized by delegated decision authority.
 - c. A more generalizable conclusion is that the technology-centralization relationship is moderated by the degree of formalization.
 - 5. Formal regulations and centralized decision making are both control mechanisms and substitutable.
- E. Environment (ppt15-19)
- 1. An organization's structure is affected by its environment because of environmental uncertainty.
 - 2. Static environments create significantly less uncertainty for managers than do dynamic ones. (See Exhibit 15-9) (ppt15-20)
 - 3. Capacity
 - a. "The degree to which it can support growth."
 - b. Rich and growing environments generate excess resources, which can buffer times of relative scarcity.
 - 4. Volatility
 - a. Refers to "the degree of instability in an environment characterized by a high degree of unpredictable change."
 - b. The environment is dynamic, making it difficult for management to predict accurately the probabilities associated with various decision alternatives.
 - c. At the other extreme is a stable environment.
 - 5. Complexity
 - a. "The degree of heterogeneity and concentration among environmental elements."
 - b. Simple environments are homogeneous and concentrated.
 - c. In contrast, environments characterized by heterogeneity and dispersion are called complex.
 - d. Some general conclusions based on the three-dimensional definition of environment are:

- i. The more scarce, dynamic, and complex the environment, the more organic a structure should be.
 - ii. The more abundant, stable, and simple the environment, the more the mechanistic structure will be preferred.
- V. Organizational Designs and Employee Behavior (ppt15-21)
 - A. One cannot generalize when linking organizational structures to employee performance and satisfaction. There is no predominant preference among employees.
 - B. Negative behavioral outcomes from high specialization are most likely to surface in professional jobs occupied by individuals with high needs for personal growth and diversity.
 - C. The decentralization-satisfaction relationship is strongest with employees who have low self-esteem.
 - D. In addition, national culture influences preference for structure so it, too, needs to be considered.
 - E. There is substantial evidence that individuals are attracted to, selected by, and stay with organizations that suit their personal characteristics.
 - F. The effect of structure on employee behavior is undoubtedly reduced where the selection process facilitates proper matching of individual characteristics with organizational characteristics.
- VI. Global Implications (ppt15-22)
 - A. When we think about how culture influences how organizations are to be structured, several questions come to mind.
 1. First, does culture really matter to organizational structure?
 2. Second, do employees in different countries vary in their perceptions of different types of organizational structures?
 3. Finally, how do cultural considerations fit with our discussion of the boundaryless organization? Let's tackle each question in turn.
 - B. Culture and Organizational Structure
 1. Does culture really affect organizational structure?
 - a. The answer might seem obvious—yes!—but there are reasons it may not matter as much as you think.
 2. Bureaucratic structures still dominate in many parts of Europe and Asia.
 - a. One management expert argues that U.S. management often places too much emphasis on individual leadership, which may be jarring in countries where decision making is more decentralized.
 - C. Culture and Employee Structure Preferences
 1. Although research is slim, it does suggest national culture influences the preference for structure.
 - D. Culture and the Boundaryless Organization
 1. When fully operational, the boundaryless organization also breaks down barriers created by geography.
 2. Today most large U.S. companies see themselves as global corporations and may well do as much business overseas as in the United States (as does Coca-Cola, for example).
 3. The boundaryless organization provides one solution because it considers geography more of a tactical, logistical issue than a structural one. In short, the goal of the boundaryless organization is to break down cultural barriers.
 4. One way to do so is through strategic alliances.
 5. And some companies allow customers to perform functions previously done by management.
 6. Finally, telecommuting is blurring organizational boundaries.

VII. Summary and Implications for Managers (ppt15-23)

- A. The theme of this chapter is that an organization's internal structure contributes to explaining and predicting behavior.
 - 1. That is, in addition to individual and group factors, the structural relationships in which people work has a bearing on employee attitudes and behavior.
- B. What's the basis for this argument?
 - 1. To the degree that an organization's structure reduces ambiguity for employees and clarifies concerns such as "What am I supposed to do?" "How am I supposed to do it?" "To whom do I report?" and "To whom do I go if I have a problem?" it shapes their attitudes and facilitates and motivates them to higher levels of performance.
- C. Of course, structure also constrains employees to the extent that it limits and controls what they do.
 - 1. Organizations structured around high levels of formalization and specialization, strict adherence to the chain of command, limited delegation of authority, and narrow spans of control give employees little autonomy.
 - 2. Controls in such organizations are tight, and behavior tends to vary within a narrow range.
 - 3. Structures with limited specialization, low formalization, and wide spans of control provide employees greater freedom and thus are characterized by greater behavioral diversity.
- D. Exhibit 15-10 summarizes what we've discussed.
 - 1. Strategy, size, technology, and environment determine the type of structure an organization will have.
 - 2. For simplicity's sake, we can classify structural designs as either mechanistic or organic.
- E. The specific effect of structural designs on performance and satisfaction is moderated by employees' individual preferences and cultural norms.
- F. Finally, technology makes some organizational structures increasingly amorphous.
 - 1. This allows a manager the flexibility to take employee preferences, experience, and culture into account and design work systems that truly motivate.

EXPANDED CHAPTER OUTLINE

I. What Is Organizational Structure?

A. Introduction

1. An organizational structure defines how job tasks are formally divided, grouped, and coordinated.
2. There are six key elements (Exhibit 15-1):
 - a. Work specialization
 - b. Departmentalization
 - c. Chain of command
 - d. Span of control
 - e. Centralization and decentralization
 - f. Formalization

B. Work Specialization

1. Henry Ford became rich and famous by building automobiles on an assembly line, demonstrating that work can be performed more efficiently by using a work specialization strategy.
 - a. Every Ford worker was assigned a specific, repetitive task.
 - b. By breaking jobs up into small standardized tasks, Ford was able to produce cars at the rate of one every ten seconds, while using employees who had relatively limited skills.
 - c. In essence, an entire job is broken into a number of steps, each completed by a separate individual.
2. By the late 1940s, most manufacturing jobs in industrialized countries were being done this way. Management saw this as a means to make the most efficient use of its employees' skills.
3. Managers also looked for other efficiencies that could be achieved through work specialization:
 - a. Employee skills at performing a task successfully increase through repetition.
 - b. Training for specialization is more efficient from the organization's perspective.
 - c. It increases efficiency and productivity, encouraging the creation of special inventions and machinery.
4. For much of the first half of this century, managers viewed work specialization as an unending source of increased productivity. By the 1960s, there became increasing evidence that a good thing can be carried too far.
5. The human diseconomies from specialization—boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover—more than offset the economic advantages. (Exhibit 15-2)
6. In such cases, enlarging the scope of job activities could increase productivity.
7. Most managers today see work specialization as neither obsolete nor as an unending source of increased productivity. Managers recognize the economies it provides and the problems it creates when carried too far.

C. Departmentalization

1. Grouping jobs together so common tasks can be coordinated is called departmentalization.
2. One of the most popular ways to group activities is by functions performed.
 - a. For example, a manufacturing manager might organize his/her plant by separating engineering, accounting, manufacturing, personnel, and purchasing specialists into common departments.

- b. The advantage to this type of grouping is obtaining efficiencies from putting like specialists together.
 - c. Functional departmentalization achieves economies of scale by placing people with common skills and orientations into common units.
 3. Tasks can also be departmentalized by the type of product the organization produces.
 - a. Procter & Gamble recently reorganized along these lines. Each major product—such as Tide, Pampers, Charmin, and Pringles—will be placed under the authority of an executive who will have complete global responsibility for that product.
 - b. The major advantage to this type of grouping is increased accountability for product performance under a single manager.
 4. Another way to departmentalize is on the basis of geography or territory.
 - a. The sales function, for instance, may have western, southern, mid-western, and eastern regions.
 5. Process departmentalization offers a basis for the homogeneous categorizing of activities.
 6. Process departmentalization can be used for processing customers as well as products. For example, at the state motor vehicles office you might find:
 - a. Validation by motor vehicles division
 - b. Processing by the licensing department
 - c. Payment collection by the treasury department
 - d. A final category of departmentalization is by type of customer.
 - i. Microsoft, for instance, recently reorganized around four customer markets: consumers, large corporations, software developers, and small businesses.
 7. The assumption is that customers in each department have a common set of problems and needs that can best be met by having specialists for each.
 8. Large organizations may use all of the forms of departmentalization that we have described.
 - a. A major Japanese electronics firm organizes each of its divisions along functional lines—its manufacturing units around processes, its sales around seven geographic regions, and each sales region into four customer groupings.
 - b. Rigid, functional departmentalization is increasingly complemented by teams.
- D. Chain of Command
 1. Thirty years ago, the chain-of-command was a basic cornerstone in the design of organizations.
 2. The chain of command is "an unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom."
 3. It answers the questions: "To whom do I go if I have a problem?" and "To whom am I responsible?"
 4. Two complementary concepts: authority and unity of command.
 - a. Authority—"the rights inherent to management to give orders and expect the orders to be obeyed."
 - b. The unity-of-command principle helps preserve the concept of an unbroken line of authority. It states that a person should have only one superior to whom he/she is directly responsible.
 5. Times change, and so do the basic tenets of organizational design. The concepts of chain of command have less relevance today because of technology and the trend of empowering employees.
 6. A low-level employee today can access information in seconds that 30 years ago was available only to top managers.

7. Similarly, computer technology increasingly allows employees anywhere in an organization to communicate with anyone else without going through formal channels.
 8. Cross-functional and self-managed teams and the creation of new structural designs make the unity-of-command concept less relevant.
- E. Span of Control
1. How many employees a manager can efficiently and effectively direct is an important question.
 2. All things being equal, the wider or larger the span, the more efficient the organization.
 3. Exhibit 15-3 illustrates that reducing the number of managers leads to significant savings.
 4. Wider spans are more efficient in terms of cost.
 5. However, at some point, wider spans reduce effectiveness.
 6. Narrow or small spans have their advocates. By keeping the span of control to five or six employees, a manager can maintain close control.
 7. Narrow spans have three major drawbacks:
 - a. First, as already described, they are expensive because they add levels of management.
 - b. Second, they make vertical communication in the organization more complex.
 - c. Third, narrow spans of control encourage overly tight supervision and discourage employee autonomy.
 8. The trend in recent years has been toward wider spans of control.
 - a. They are consistent with recent efforts by companies to reduce costs, cut overhead, speed up decision making, increase flexibility, get closer to customers, and empower employees.
 - b. To ensure that performance does not suffer because of these wider spans, organizations have been investing heavily in employee training.
- F. Centralization and Decentralization
1. Centralization refers to the degree to which decision making is concentrated at a single point in the organization. A centralized organization is inherently different structurally from one that is decentralized.
 - a. In some organizations, top managers make all the decisions. This is highly centralized.
 - b. The concept includes only formal authority.
 - c. The organization is centralized when top management makes the organization's key decisions with little or no input from lower-level personnel. The concept includes only formal authority.
 2. There are organizations where decision making is pushed down to those managers who are closest to the action. This is highly decentralized.
 - a. The more that lower-level personnel provide input, the more decentralization there is.
 - b. In a decentralized organization, action can be taken more quickly to solve problems, more people provide input into decisions, and employees are less likely to feel alienated.
 - c. There has been a marked trend toward decentralizing decision making. For example, Sears and JC Penney have given their store managers considerably more discretion on what merchandise to stock.
- G. Formalization
1. Formalization refers to the degree to which jobs within the organization are standardized.
 - a. A highly formalized job gives the job incumbent a minimum amount of discretion over what is to be done, when it is to be done, and how he or

- she should do it. Employees can be expected always to handle the same input in exactly the same way.
- b. The greater the standardization, the less input the employee has into how the job is done.
- 2. Low formalization—job behaviors are relatively nonprogrammed, and employees have a great deal of freedom to exercise discretion in their work.
- 3. The degree of formalization can vary widely between organizations and within organizations.

II. Common Organizational Designs

A. The Simple Structure

1. The simple structure is characterized most by what it is not rather than what it is:
 - a. It is not elaborated.
 - b. It has a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
 - c. The simple structure is a “flat” organization; it usually has only two or three vertical levels.
 - d. One individual has the decision-making authority.
2. The simple structure is most widely practiced in small businesses in which the manager and the owner are one and the same. (See Exhibit 15–4, an organization chart for a retail men’s store.)
3. The strength of the simple structure lies in its simplicity. It is fast, flexible, inexpensive to maintain, and accountability is clear.
4. One major weakness is that it is difficult to maintain in anything other than small organizations.
5. It becomes increasingly inadequate as an organization grows because its low formalization and high centralization tend to create information overload at the top.
6. When an organization begins to employ 50–100 people, it is very difficult for the owner-manager to make all the choices.
 - a. If the structure is not changed and made more elaborate, the firm often loses momentum and can eventually fail.
7. The simple structure’s other weakness is that it is risky—everything depends on one person. Illness can literally destroy the information and decision-making center of the company.

B. The Bureaucracy

1. Standardization—the key concept for all bureaucracies.
2. The bureaucracy is characterized by:
 - a. Highly routine operating tasks achieved through specialization
 - b. Very formalized rules and regulations
 - c. Tasks that are grouped into functional departments
 - d. Centralized authority
 - e. Narrow spans of control
 - f. Decision making that follows the chain of command
3. Its primary strength is in its ability to perform standardized activities in a highly efficient manner.
 - a. Putting like specialties together in functional departments results in economies of scale, minimum duplication of personnel and equipment, etc.
 - b. Bureaucracies get by nicely with less talented and less costly middle- and lower-level managers.
4. Weaknesses
 - a. Specialization creates subunit conflicts; functional unit goals can override the organization’s goals.

- b. Obsessive concern with following the rules
- C. The Matrix Structure
 1. It is used in advertising agencies, aerospace firms, research and development laboratories, construction companies, hospitals, government agencies, universities, management consulting firms, and entertainment companies.
 2. It combines two forms of departmentalization—functional and product:
 - a. The strength of functional departmentalization—putting like specialists together and the pooling and sharing of specialized resources across products
 - b. Its major disadvantage is the difficulty of coordinating the tasks.
 3. Product departmentalization facilitates coordination.
 4. It provides clear responsibility for all activities related to a product, but with duplication of activities and costs.
 5. The most obvious structural characteristic of the matrix is that it breaks the unity-of-command concept. (Exhibit 15–5 shows the matrix form as used in a college of business administration.)
 6. Its strength is its ability to facilitate coordination when the organization has a multiplicity of complex and interdependent activities.
 7. The dual lines of authority reduce tendencies of departmental members to protect their worlds.
 8. It facilitates the efficient allocation of specialists.
 9. The major disadvantages of the matrix lie in the confusion it creates, its propensity to foster power struggles, and the stress it places on individuals.
 10. Violation of the unity-of-command concept increases ambiguity that often leads to conflict.
 11. Confusion and ambiguity also create the seeds of power struggles.
 12. Reporting to more than one boss introduces role conflict, and unclear expectations introduce role ambiguity.

III. New Design Options

- A. The Virtual Organization
 1. The essence of the virtual organization is that it is typically a small, core organization that outsources major business functions:
 - a. Also referred to as modular or network organization
 - b. It is highly centralized, with little or no departmentalization.
 - c. The prototype of the virtual structure is today's movie-making organization.
 2. In Hollywood's golden era, movies were made by huge, vertically integrated corporations.
 - a. Nowadays, most movies are made by a collection of individuals and small companies who come together and make films project by project.
 - b. This structural form allows each project to be staffed with the talent most suited to its demands, rather than having to choose just from those people the studio employs.
 3. When large organizations use the virtual structure, they frequently use it to outsource manufacturing. Companies like Nike, Reebok, L.L. Bean, and Dell Computer can do business without having to own manufacturing facilities.
 4. Virtual organizations create networks of relationships that allow them to contract out business function where management feels that others can do it better or more cheaply.
 - a. The virtual organization stands in sharp contrast to the typical bureaucracy in that it outsources many generic functions and concentrates on what it does best.

- b. Exhibit 15–6 shows a virtual organization in which management outsources all of the primary functions of the business. The dotted lines in this exhibit represent those relationships typically maintained under contracts. In essence, managers in virtual structures spend most of their time coordinating and controlling external relations, typically by way of computer-network links.
 - c. The major advantage to the virtual organization is its flexibility.
 - d. The primary drawback is that it reduces management’s control over key parts of its business.
- B. The Boundaryless Organization
1. General Electric’s former chairman, Jack Welch, coined the term boundaryless organization.
 - a. Welch wanted to turn his company into a “\$60 billion family grocery store.”
 - b. He wanted to eliminate vertical and horizontal boundaries and break down external barriers.
 2. The boundaryless organization seeks to eliminate the chain of command, have limitless spans of control, and replace departments with empowered teams.
 3. Because it relies so heavily on information technology, some call this structure the T-form (or technology-based) organization.
 4. By removing vertical boundaries, management flattens the hierarchy and minimizes status and rank.
 - a. Uses cross-hierarchical teams
 - b. Uses participative decision-making practices
 - c. Uses 360-degree performance appraisals
 5. Functional departments create horizontal boundaries. The way to reduce these barriers is to:
 - a. Replace functional departments with cross-functional teams and organize around processes.
 - b. Use lateral transfers and rotate people into and out of different functional areas.
 - c. The boundaryless organization also breaks down barriers to external constituencies (suppliers, customers, regulators, etc.) and barriers created by geography.
 6. The one common technological thread of boundaryless organization is networked computers:
 - a. E-mail enables employees to share information simultaneously and to communicate directly.
 - b. Many large companies are developing private nets or “intranets.” Using the Internet and the World Wide Web, these private nets are internal communication systems.
- C. The Learner Organization: Organizational Downsizing
1. The goal of the new organizational forms we’ve described is to improve agility by creating a lean, focused, and flexible organization.
 2. Downsizing is a systematic effort to make an organization leaner by selling off business units, closing locations, or reducing staff.
 - a. It has been very controversial because of its potential negative impacts on employees.
 - b. The radical shrinking of Chrysler and General Motors in recent years was a case of downsizing due to loss of market share and changes in consumer demand.
 3. Some companies focus on lean management techniques to reduce bureaucracy and speed decision making.

4. Despite the advantages of being a lean organization, the impact of downsizing on organizational performance has been very controversial.
 - a. Reducing the size of the workforce has an immediately positive outcome in the huge reduction in wage costs.
 - b. Companies downsizing to improve strategic focus often see positive effects on stock prices after the announcement.
 - c. On the other hand, among companies that only cut employees but don't restructure, profits and stock prices usually decline.
5. Part of the problem is the effect of downsizing on employee attitudes.
 - a. Those who remain often feel worried about future layoffs and may be less committed to the organization.
 - b. Stress reactions can lead to increased sickness absences, lower concentration on the job, and lower creativity.
6. In companies that don't invest much in their employees, downsizing can also lead to more voluntary turnover so vital human capital is lost.
 - a. The result is a company that is more anemic than lean.
7. Companies can reduce negative impacts by preparing for the post-downsizing environment in advance, thus alleviating some employee stress and strengthening support for the new strategic direction.
8. The following are some effective strategies for downsizing and suggestions for implementing them.
 - a. *Investment.* Companies that downsize to focus on core competencies are more effective when they invest in high-involvement work practices afterward.
 - b. *Communication.* When employers make efforts to discuss downsizing with employees early, employees are less worried about the outcomes and feel the company is taking their perspective into account.
 - c. *Participation.* Employees worry less if they can participate in the process in some way. In some companies, voluntary early retirement programs or severance packages can help achieve leanness without layoffs.
 - d. *Assistance.* Providing severance, extended health care benefits, and job search assistance demonstrates a company does really care about its employees and honors their contributions.
9. Companies that make themselves lean can be more agile, efficient, and productive—but only if they make cuts carefully and help employees through the process.

IV. Why Do Structures Differ?

A. Introduction

1. The mechanistic model (Exhibit 15-7)—synonymous with the bureaucracy—has extensive departmentalization, high formalization, a limited information network (mostly downward), and little participation in decision making.
2. The organic model (Exhibit 15-7) looks a lot like the boundaryless organization; it uses cross-hierarchical and cross-functional teams, low formalization, a comprehensive information network, and high participation in decision making.
3. Why are some organizations structured along mechanistic lines while others are organic?

B. Strategy

1. An organization's structure is a means to help management achieve its objectives. Objectives derive from the organization's overall strategy.
2. Structure should follow strategy. (Exhibit 15-8)
3. Most current strategy frameworks focus on three strategy dimensions—innovation, cost minimization, and imitation—and the structural design that works best with each.

- a. An innovation strategy means a strategy for meaningful and unique innovations. This strategy may appropriately characterize 3M Company.
 - b. A cost-minimization strategy tightly controls costs, refrains from incurring unnecessary innovation or marketing expenses, and cuts prices in selling a basic product. This describes Wal-Mart's strategy.
 - c. An imitation strategy tries to capitalize on the best of both innovation and cost-minimization strategies:
 - i. It seeks to minimize risk and maximize opportunity for profit.
 - ii. It moves into new products or new markets only after viability has been proven by innovators.
 - iii. It copies successful ideas of innovators.
 - iv. Manufactures mass-marketed fashion goods that are rip-offs of designer styles
 - v. Innovators need the flexibility of the organic structure.
 4. Cost minimizers seek the efficiency and stability of the mechanistic structure.
 5. Imitators combine the two structures—a mechanistic structure (in order to maintain tight controls and low costs) and organic subunits (to pursue new lines of business).
- C. Organizational Size
1. There is considerable evidence to support that an organization's size significantly affects its structure.
 2. Large organizations—employing 2,000 or more people—tend to have more specialization, more departmentalization, more vertical levels, and more rules and regulations than do small organizations.
 3. The impact of size becomes less important as an organization expands.
 4. Once an organization has around 2,000 employees, it's already fairly mechanistic. An additional 500 employees will not have much impact.
 5. However, adding 500 employees to a 300-employee firm is likely to result in a mechanistic structure.
- D. Technology
1. The term refers to how an organization transfers its inputs into outputs.
 - a. Every organization has at least one technology for converting financial, human, and physical resources into products or services.
 - b. Ford Motor Company predominantly uses an assembly-line process to make its products.
 - c. Colleges may use a number of instruction technologies—the ever-popular formal lecture method, the case analysis method, the experiential exercise method, the programmed learning method, etc. —to educate its students.
 2. Technologies can be differentiated by degree of routineness:
 - a. Routine technologies are characterized by automated and standardized operations.
 - b. Nonroutine technologies are customized and include such varied operations as furniture restoring, custom shoemaking, and genetic research.
 3. The relationships between technology and structure:
 - a. Routine tasks are associated with taller and more departmentalized structures.
 - b. The relationship between technology and formalization, however, is stronger.
 - c. Routineness is associated with the presence of formalized documentation.
 4. There is an interesting relationship between technology and centralization:
 - a. Routine technologies seem to be associated with a centralized structure.
 - b. Nonroutine technologies, which rely more heavily on the knowledge of specialists, would be characterized by delegated decision authority.

- c. A more generalizable conclusion is that the technology-centralization relationship is moderated by the degree of formalization.
 - 5. Formal regulations and centralized decision making are both control mechanisms and substitutable:
 - a. Routine technologies associate with centralized control if there is a minimum of rules and regulations.
 - b. If formalization is high, routine technology can be accompanied by decentralization.
- E. Environment
 - 1. An organization's structure is affected by its environment because of environmental uncertainty:
 - a. Some organizations face static environments—few forces in their environment are changing.
 - b. Other organizations face very dynamic environments—rapidly changing government regulations affecting their business, new competitors, difficulties in acquiring raw materials, etc.
 - 2. Static environments create significantly less uncertainty for managers than do dynamic ones.
 - a. One way to reduce environmental uncertainty is through adjustments in the organization's structure.
 - b. There are three key dimensions to organizational environment—capacity, volatility, and complexity. (See Exhibit 15–9)
 - 3. Capacity
 - a. "The degree to which it can support growth."
 - b. Rich and growing environments generate excess resources, which can buffer times of relative scarcity.
 - 4. Volatility
 - a. Refers to "the degree of instability in an environment characterized by a high degree of unpredictable change."
 - b. The environment is dynamic, making it difficult for management to predict accurately the probabilities associated with various decision alternatives.
 - c. At the other extreme is a stable environment.
 - 5. Complexity
 - a. "The degree of heterogeneity and concentration among environmental elements."
 - b. Simple environments are homogeneous and concentrated.
 - c. In contrast, environments characterized by heterogeneity and dispersion are called complex.
 - d. Some general conclusions based on the three-dimensional definition of environment are:
 - i. The more scarce, dynamic, and complex the environment, the more organic a structure should be.
 - ii. The more abundant, stable, and simple the environment, the more the mechanistic structure will be preferred.
- V. Organizational Designs and Employee Behavior
 - A. One cannot generalize when linking organizational structures to employee performance and satisfaction. There is no predominant preference among employees.
 - 1. Problems start to surface, and productivity begins to suffer when the human diseconomies of doing repetitive and narrow tasks overtake the economies of specialization.
 - 2. Specialized jobs are still preferred by a segment of the workforce that prefers the routine and repetitiveness of highly specialized jobs.

- B. Negative behavioral outcomes from high specialization are most likely to surface in professional jobs occupied by individuals with high needs for personal growth and diversity.
 - 1. It is impossible to state what span of control is best for producing high performance or high satisfaction among employees.
 - 2. There is some evidence indicating that a manager's job satisfaction increases as the number of employees he or she supervises increases.
 - 3. There is a fairly strong link between centralization and job satisfaction.
 - 4. Participative decision making is positively related to job satisfaction.
- C. The decentralization-satisfaction relationship is strongest with employees who have low self-esteem.
 - 1. To maximize employee performance and satisfaction, individual differences—such as experience, personality, and the work task—should be taken into account.
- D. In addition, national culture influences preference for structure so it, too, needs to be considered.
- E. There is substantial evidence that individuals are attracted to, selected by, and stay with organizations that suit their personal characteristics.
- F. The effect of structure on employee behavior is undoubtedly reduced where the selection process facilitates proper matching of individual characteristics with organizational characteristics.

VI. Global Implications

- A. When we think about how culture influences how organizations are to be structured, several questions come to mind.
 - 1. First, does culture really matter to organizational structure?
 - 2. Second, do employees in different countries vary in their perceptions of different types of organizational structures?
 - 3. Finally, how do cultural considerations fit with our discussion of the boundaryless organization? Let's tackle each question in turn.
- B. Culture and Organizational Structure
 - 1. Does culture really affect organizational structure?
 - a. The answer might seem obvious—yes!—but there are reasons it may not matter as much as you think.
 - b. The U.S. model of business has been very influential on organizational structures in other countries.
 - c. Moreover, U.S. structures themselves have been influenced by structures in other countries (especially Japan, Great Britain, and Germany). However, cultural concerns still might be important.
 - 2. Bureaucratic structures still dominate in many parts of Europe and Asia.
 - a. One management expert argues that U.S. management often places too much emphasis on individual leadership, which may be jarring in countries where decision making is more decentralized.
- C. Culture and Employee Structure Preferences
 - 1. Although research is slim, it does suggest national culture influences the preference for structure.
 - 2. Organizations that operate with people from high power-distance cultures, such as Greece, France, and most of Latin America, find that their employees are much more accepting of mechanistic structures than are employees from low power-distance countries.
 - 3. So consider cultural differences along with individual differences when predicting how structure will affect employee performance and satisfaction.
- D. Culture and the Boundaryless Organization
 - 1. When fully operational, the boundaryless organization also breaks down barriers created by geography.

2. Today most large U.S. companies see themselves as global corporations and may well do as much business overseas as in the United States (as does Coca-Cola, for example).
 - a. As a result, many companies struggle with the problem of how to incorporate geographic regions into their structure.
3. The boundaryless organization provides one solution because it considers geography more of a tactical, logistical issue than a structural one. In short, the goal of the boundaryless organization is to break down cultural barriers.
4. One way to do so is through strategic alliances.
 - a. Firms such as NEC Corporation, Boeing, and Apple each have strategic alliances or joint partnerships with dozens of companies.
 - b. These alliances blur the distinction between one organization and another as employees work on joint projects.
5. And some companies allow customers to perform functions previously done by management.
 - a. Some AT&T units receive bonuses based on customer evaluations of the teams that serve them.
6. Finally, telecommuting is blurring organizational boundaries.
 - a. The security analyst with Merrill Lynch who does his job from his ranch in Montana or the software designer in Boulder, Colorado, who works for a San Francisco firm are just two of the millions of workers doing their jobs outside the physical boundaries of their employers' premises.

VII. Summary and Implications for Managers

- A. The theme of this chapter is that an organization's internal structure contributes to explaining and predicting behavior.
 1. That is, in addition to individual and group factors, the structural relationships in which people work has a bearing on employee attitudes and behavior.
- B. What's the basis for this argument?
 1. To the degree that an organization's structure reduces ambiguity for employees and clarifies concerns such as "What am I supposed to do?" "How am I supposed to do it?" "To whom do I report?" and "To whom do I go if I have a problem?" it shapes their attitudes and facilitates and motivates them to higher levels of performance.
- C. Of course, structure also constrains employees to the extent that it limits and controls what they do.
 1. Organizations structured around high levels of formalization and specialization, strict adherence to the chain of command, limited delegation of authority, and narrow spans of control give employees little autonomy.
 2. Controls in such organizations are tight, and behavior tends to vary within a narrow range.
 3. Structures with limited specialization, low formalization, and wide spans of control provide employees greater freedom and thus are characterized by greater behavioral diversity.
- D. Exhibit 15-10 summarizes what we've discussed.
 1. Strategy, size, technology, and environment determine the type of structure an organization will have.
 2. For simplicity's sake, we can classify structural designs as either mechanistic or organic.
- E. The specific effect of structural designs on performance and satisfaction is moderated by employees' individual preferences and cultural norms.
- F. Finally, technology makes some organizational structures increasingly amorphous.
 1. This allows a manager the flexibility to take employee preferences,

experience, and culture into account and design work systems that truly motivate.