
FOURTH EDITION

UNDERSTANDING AND MANAGING
ORGANIZATIONAL
BEHAVIOR

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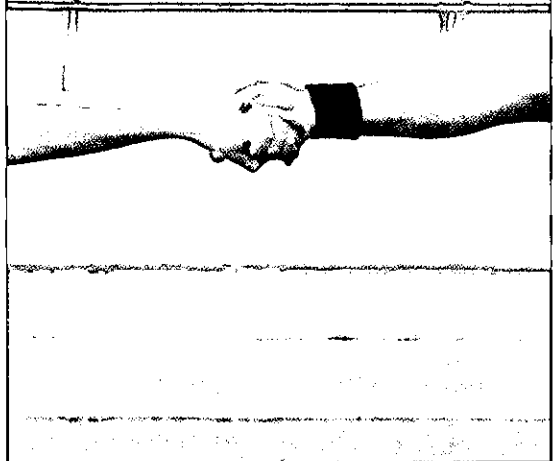
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Organizational Design and Structure



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LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Understand the relationship between organizational design and an organization's structure.
- Explain the main contingencies affecting the process of organizational design and differentiate between a mechanistic and an organic structure.
- Cite the advantages of grouping people into functions and divisions and distinguish among the main forms of organizational structure from which an organization can choose.
- Explain why coordination becomes a problem with the growth of an organization and differentiate among the three main methods it can use to overcome this problem and link its functions and divisions.
- Gain an understanding of the enormous impact modern information technology has had on the process of organizational design and structure both inside organizations and among them.

OPENING CASE

A New Approach to Organizing at Sun Life Financial

Why Did Sun Life Financial Change Its Structure?

Sun Life Financial, which is based in Toronto, Canada, is one of the largest financial and insurance companies in North America.¹ Like most other life insurance companies in the 1990s, Sun Life Financial had an organizational structure that was very rigid and bureaucratic. Over the years it had developed a tall, centralized structure. Information was sent via the hierarchy to upper-level managers, who made the final decisions about whether or not to offer prospective customers insurance and how much their policies should cost.



Sun Life Financial also operated with a functional structure, however. When a potential customer requested information about insurance coverage, a member of the company's customer service department took the application and handed it over to the company's order fulfillment department for processing. The order fulfillment department then sent the application to the actuarial department, which calculated the insurance premium. Only after several more steps were completed could the company inform a would-be customer about the outcome of his or her request.

The process of channeling the request through many different levels in the hierarchy and across so many different functions took considerable time. Frequently, because most potential customers obtained multiple quotes from several insurance companies, the long time lag often resulted in lost business. Customers simply "satisfied" and chose an insurance policy from one of the first two or three companies that promptly gave them an insurance quote.

Sun Life Financial realized it had to find a way to respond more quickly to its customers. It was also aware of the fact that the insurance business was changing in many ways. New aggressive competitors were entering the market, including large established banks such as Citicorp, which were acquiring insurance companies and expanding their operations. Also, a number of dot-com companies had begun selling policies on the Internet; this left insurance companies operating in a traditional manner scrambling to develop technologies to do business online, too. Other advances in information technology were affecting the company's internal operations as well.

Sun Life Financial decided that it had to change the way it operated and do so fast. It needed a structure that would allow it to respond quickly and flexibly to the needs of its current and prospective customers. It knew it must empower its frontline employees to quote and issue policies.

Toward that end, Sun Life Financial decided on the following course of action: First, it discarded its functional structure and reorganized its 13 different functional groups into a series of cross-functional product teams. Employees from sales, customer service, order fulfillment, and other departments of the company became members of "service teams." Each team was also equipped with an IT system, which gave it access to all the information it needed to respond to a customer's request.² For example, each team was empowered to perform all the steps necessary

to process a customer's request for insurance. No longer was it necessary for subordinates to go to their managers for approval on policies; the team could make its own decisions.

When all the requests and exchanges between departments were eliminated, Sun Life Financial was astonished at the impact the new structure had on the company's activities. Its new teams operated so quickly and with such flexibility that the time needed to process a request fell by 75 percent. With such rapid service, the company found it much easier to attract new customers, and its business started growing rapidly as a result.

Sun Life Financial soon realized that it could use IT in other ways to improve the way it coordinated its activities. As the company grew, for example, it began to offer a wider range of financial services such as pension management and investment and estate planning. In addition to realizing it could use its cross-functional teams to offer a wider range of new services, it decided to bring its customers "inside" the organization.

For example, via the Internet, today the company's customers can self-manage their accounts. When they want to change their insurance policies or add additional services, they can easily do so online. If they should need additional help, however, they can interact electronically with company's teams, make online inquiries, and normally receive a response within 24 hours. In fact, in 2003 Sun Life Financial won a national award for the way it had transformed its organizational design to improve customer service. Moreover, its new organizational structure and processes have resulted in record revenues and profits.³

Sun Life Financial's experience suggests that an organizational design can have a major effect on the way a company's employees behave and how well it operates. Moreover, with the marketplace changing at every turn, it is imperative that organizations continue to find new ways to operate efficiently and flexibly. In this chapter, we first examine the nature of organizational design and structure, and then we examine the main contingencies or changing conditions that affect the way an organization is designed. Second, we look at the different ways in which people and groups can be arranged to create an organizational structure that allows employees to achieve the organization's goals. Third, we examine the methods organizations use to coordinate and integrate people and groups to ensure that they work together well. Finally, we focus on the way new forms of information technology are changing the way organizations manage their activities.

Designing Organizational Structure

Organizing is the process of establishing the structure of working relationships among employees to allow them to achieve organizational goals effectively. **Organizational structure** is the formal system of task and job reporting relationships that determines how employees use resources to achieve the organization's goals.⁴ **Organizational design** is the process of making the specific choices about how to arrange the tasks and job relationships that comprise the organizational structure.⁵

According to **contingency theory**, an organization's structure needs to be designed to fit or match the set of contingencies—factors or conditions that affect it the most and cause it the most uncertainty.⁶ Because each organization faces a different set of contingencies, there is no “one best way” to design an organization: The best design is one that fits the organization's specific situation. Three important contingencies that factor into the design of organizational structure are (1) the nature of the organization's environment, (2) advances in technology (increasingly, information technology), and (3) the characteristics of an organization's human resources.⁷ (See Figure 16.1.) Each of these is discussed in detail next, followed by the way they affect an organization's structure.

THE ORGANIZATIONAL ENVIRONMENT

We examined several forces in the environment that affect organizational behavior, such as changes in the social, cultural, and global environment, in Chapter 1. In general, the more quickly forces in the environment are changing, the greater the uncertainty within it and the greater are the problems of quickly accessing resources the organization needs

Overview

Organizational structure

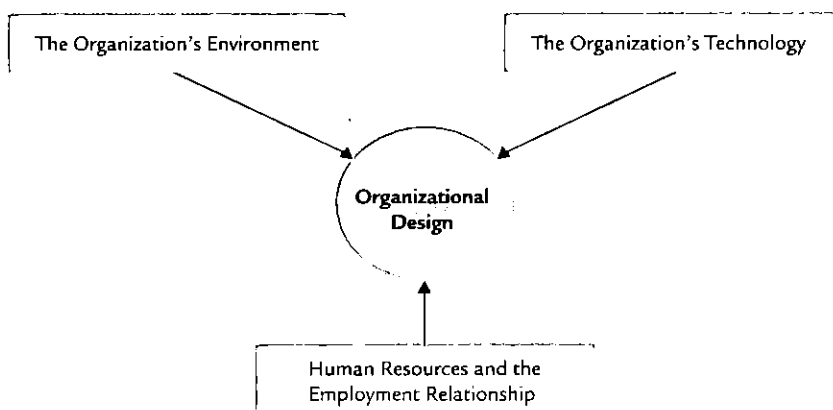
The formal system of task and reporting relationships that controls, coordinates, and motivates employees so that they cooperate and work together to achieve an organization's goals.

Organizational design The process by which managers select and manage various dimensions and components of organizational structure and culture so that an organization can achieve its goals.

Contingency theory

Organizational structure should be designed to match the set of contingencies—factors or conditions—that cause an organization the most uncertainty.

FIGURE 16.1
Three Contingencies
Affecting
Organizational Design



to perform well, such as additional capital, plants, and equipment. In order to speed up the decision-making and communication processes related to obtaining resources, the most likely choice of design will be one that brings flexibility to the organization.⁸ In this case, an organization is more likely to decentralize authority and empower its employees to make important operating decisions.⁹ Because change is occurring everywhere in today's global environment, finding ways to structure organizations to empower self-managed teams and employees is imperative.¹⁰

In contrast, if the environment is stable, resources are readily available, and uncertainty is low, then less coordination and communication among people and functions are needed to obtain resources. Organizational design choices can be made that bring more stability or formality to the structure. A more clearly defined hierarchy of authority and an extensive body of rules and regulations are likely to be appropriate in this case.

TECHNOLOGY

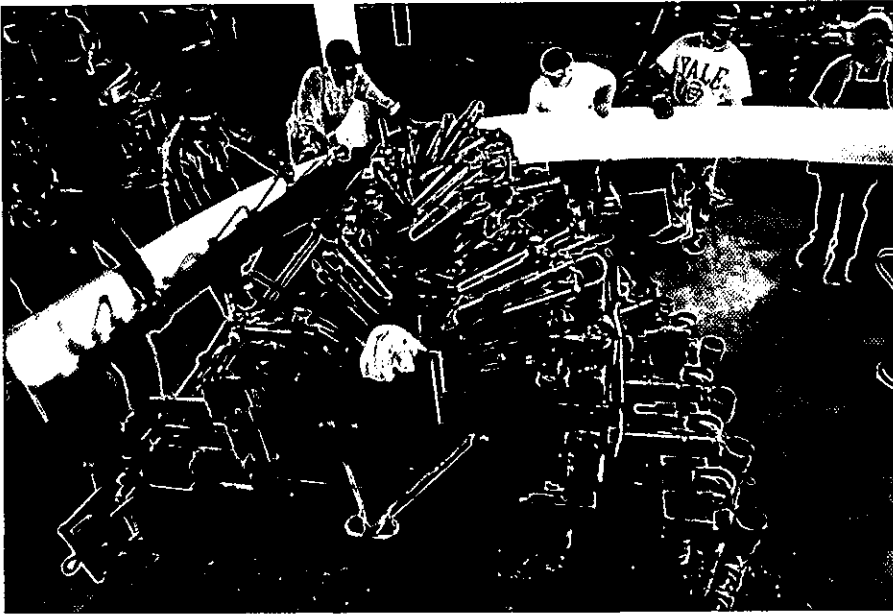
Technology The combination of skills, knowledge, tools, machines, computers, and equipment used in the design, production, and distribution of goods and services.

Technology is the combination of skills, knowledge, tools, machines, computers, and equipment used in the design, production, and distribution of goods and services. As a rule, the more complicated the technology that an organization uses, the more difficult it is to regulate and control it. Thus, in contingency theory, the more complicated the technology, the greater is the need for a flexible structure to allow an organization to respond to unexpected situations and provide its employees with the freedom to work out new solutions to the problems they encounter using it.¹¹ In contrast, the more routine the technology, the more appropriate is a formal structure because tasks are simple and the steps needed to produce goods and services have been worked out in advance.

What makes a technology routine or complicated? One researcher who investigated this issue, Charles Perrow, argued that two factors determine how complicated or nonroutine technology is: task variety and task analyzability.¹² *Task variety* is the number of new or unexpected problems or situations that a person or functional group encounters while performing tasks or jobs. *Task analyzability* is the degree to which programmed solutions are available to people or functional groups to solve the problems they encounter. Nonroutine or complicated technologies are characterized by high task variety and low task analyzability; this means that many varied problems occur and that solving these problems requires significant nonprogrammed decision making. In contrast, routine technologies are characterized by low task variety and high task analyzability; this means that the problems encountered do not vary much and are easily resolved through programmed decision making.

Examples of nonroutine technology are found in the way scientists in a research and development laboratory develop new products or discover new drugs or in the way emergency or operating room personnel cooperate to quickly respond to each patient's particular medical needs. Examples of routine technology include typical mass-production or assembly operations in which employees perform the same task repeatedly and the programmed solutions necessary to perform a task efficiently have already been identified and refined. Similarly, in service organizations, such as fast-food restaurants, the tasks that crew members perform in making and serving the food are very routine.

The extent to which the process of actually producing or creating goods and services depends on people or machines is another factor that determines how nonroutine a technology is. The more the technology used to produce goods and services is based on the skills, knowledge, and abilities of people working together on an ongoing basis and not on automated machines that can be programmed in advance, the more complex the technology is. Joan Woodward, a professor who investigated the relationship between technology and organizational structure, differentiated among three kinds of technology on the basis of the relative contributions made by people or machines.¹³



Skilled workers at Steinway and Sons wrap a 22-foot-long maple rim around the press that will shape it into the case for a Model D grand piano, an example of small-batch production in action. Roughly 200 people are involved in making and assembling the piano, which has 12,000 parts and costs about \$ 60,000 to buy.

Small-batch technology is used to produce small quantities of customized, one-of-a-kind products and is based on the skills of people who work together in small groups. Examples of goods and services produced by small-batch technology include custom-built cars, such as Ferraris and Rolls Royces, highly specialized metals and chemicals that are produced by the pound rather than by the ton, and the evaluation services performed by a small team of auditors hired to evaluate the accuracy of a firm's financial statements. Because small-batch goods or services are customized and unique, employees need to respond to each situation in a more unique fashion; a decentralized structure of authority allows them to respond flexibly. Such a structure is, therefore, appropriate with small-batch technology.

Woodward's second kind of technology, **mass-production technology**, is based primarily on the use of automated machines that are programmed to perform the same operations time and time again. Mass production works most efficiently when each person performs a repetitive task. There is less need for flexibility; in this case, a formal organizational structure is preferred because it gives managers the most control over the production process. Mass production results in an output of large quantities of standardized products such as tin cans, Ford Tauruses, washing machines, and lightbulbs, and services such as a car wash or dry cleaner.

The third kind of technology that Woodward identified, **continuous-process technology**, is almost totally mechanized. Products are produced by automated machines working in sequence and controlled through computers from a central monitoring station. Examples of continuous-process technology include large steel mills, oil refineries, nuclear power stations, and large-scale brewing operations. The role of employees in continuous-process technology is not to produce individual products but instead to watch for problems that may occur unexpectedly and adversely affect the overall process. The possibility of a machinery or computer breakdown, for example, is a major hazard associated with continuous-process technology. If an unexpected situation does occur (such as an explosion in a chemical complex), employees must be able to respond quickly and appropriately to prevent a disaster. In this case, the flexible response required will necessitate a flexible organizational structure.

As we discussed in previous chapters, new information technology is profoundly affecting how organizations operate. An IT-enabled organizational structure allows for new kinds of tasks and job reporting relationships among electronically connected people that promotes superior communication and coordination. For

Small-batch technology

A method used to produce small quantities of customized, one-of-a-kind products based on the skills of people who work together in small groups.

Mass-production technology

A method of production using automated machines that are programmed to perform the same operations time and time again.

Continuous-process technology

A method of production involving the use of automated machines working in sequence and controlled through computers from a central monitoring station.

example, one type of IT-enabled organizational relationship discussed in Chapter 15 is *knowledge management*, the sharing and integrating of expertise within and between functional groups and divisions in real time.¹⁴ Unlike more rigid or bureaucratic organizing methods, new IT-enabled organizations can respond more quickly to changing conditions in the competitive environment.

HUMAN RESOURCES AND THE EMPLOYMENT RELATIONSHIP

A third important contingency affecting an organization's choice of structure is the characteristics of its human resources and the nature of the employment relationship. In general, the more highly skilled an organization's workforce, the more people are required to work together in groups or teams to perform their tasks. In this case, an organization is more likely to use a flexible, decentralized structure. Also, the longer and better the employment relationship a company has with its employees, the more likely it is to choose a design structure giving them the freedom to make important decisions.¹⁵ Highly skilled employees usually desire freedom and autonomy and dislike close supervision.¹⁶ For example, no one needs to tell a scientist to report his or her results accurately and impartially or doctors and nurses to give patients the best care possible.

Moreover, when people work in teams like doctors and nurses and groups of research scientists do, they must be able to interact freely. A more flexible organizational structure makes this possible. When it comes to designing an organizational structure, both the work and the people who do it are important.

ORGANIC AND MECHANISTIC STRUCTURES

As the previous discussion suggests, an organization's environment, technology, and human resources are three main factors that influence the design of its structure. The greater the level of uncertainty in the environment of the organization, the complexity of its technology, and the skill of its workforce, the more likely managers are to design a flexible structure.

In contingency theory, the term **organic structure** is used to describe an organizational structure that is designed to promote flexibility so that employees can initiate change and adapt quickly to changing conditions. In an organic structure, employees working in empowered teams assume the responsibility to make decisions as organizational needs dictate. Employees also are expected to continually develop skills in new kinds of tasks and to work together to find the best ways to perform a task. Shared work norms and values become the main means through which employees coordinate their activities to achieve organizational goals.

In contrast, the more stable the organization's environment, the less complex and more well understood its technology, and the less skilled its workforce, the more likely are managers to design an organizational structure that is formal and controlling. In contingency theory, the term **mechanistic structure** is used to describe an organizational structure that is designed to induce employees to behave in predictable, accountable ways. In a mechanistic structure decision-making authority is retained at the top of the organization, and each employee performs a clearly defined task and knows exactly what his or her area of responsibility is. The work process is coordinated by an extensive system of rules and regulations that links employee activities and makes them ordered and predictable. How do you design an organization structure to be either flexible or formal? The way an organization's structure works depends on the organizing choices managers make about two principal issues:

- ◆ How to group jobs into functions and divisions
- ◆ How to coordinate or integrate jobs, functional groups, and divisions

Organic structure

An organizational structure designed to promote flexibility so that employees can initiate change and adapt quickly to changing conditions.

Mechanistic structure

An organizational structure designed to induce employees to behave in predictable, accountable ways.

you're the management expert

Which Work System Is Better?

You're an expert on organizational design who has been called in to advise a new Web development company about how to organize its work activities. The company's goal is to design Web sites to suit the needs of specific clients, usually small- to medium-sized companies. This will require that the Web site developers work closely with each client. After the site is built to the satisfaction of the client, it will have to be constantly updated to incorporate new software technology and to

reflect changes in the client's business needs. The managers of the new company want to know if they should (1) design the work processes so that, using a sophisticated IT system, each employee working alone can make all the necessary decisions to satisfy a particular customer's request, or (2) use small-batch production and group employees into teams to develop several different Web sites at once. Which system do you think is likely to be more effective? Why?

Grouping Jobs Into Functions and Divisions

As we note in Chapter 1, organizations are groups of people working together to achieve a wide variety of goals. One of the main reasons people work together is so that the organization can experience gains in productivity that result from the division of labor and specialization.¹⁷

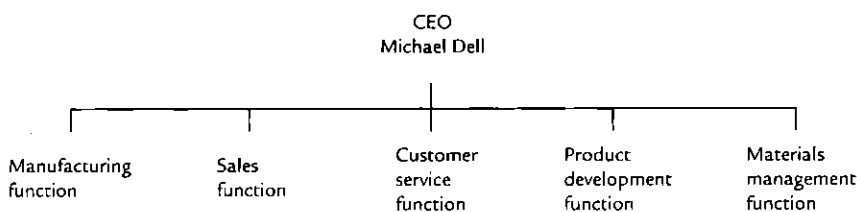
The first issue in organizational design is to choose a division of labor or way to group different jobs together to best meet the needs of the organization's environment, technology, and human resources. Most organizations group jobs together according to their function and thereby develop a functional structure. A **function** is a group of people working together who possess similar skills or use the same kind of knowledge, tools, or techniques to perform their jobs. A **functional structure** is an organizational structure composed of all the job specializations that an organization requires to produce its goods or services. For example, the salespeople in a car dealership belong to the sales function. Together, car sales, car repair, car parts, and accounting are the set of functions that allow an automotive dealership to sell and maintain cars. Consider how Michael Dell developed a functional structure for Dell Computer. To effectively control the activities of his employees as his company grew, Dell created the functional structure illustrated in Figure 16.2.

Dell groups all employees who perform tasks related to assembling personal computers into the manufacturing function and all employees who handle Dell's telephone sales into the sales function. Engineers responsible for designing Dell's computers are grouped into the product development function, and employees responsible for obtaining supplies of hard discs, chips, and other inputs are grouped into the materials management function. The functional structure suited the needs of Dell's growing company, especially as it battled with Compaq, now a part of HP, and Gateway for control of the personal computer market—a battle in which it is currently winning hands down.¹⁸

Function A set of people who perform the same types of tasks or hold similar positions in an organization.

Functional structure An organizational structure that groups together people who hold similar positions, perform a similar set of tasks, or use the same kinds of skills.

FIGURE 16.2
Dell's Functional Structure



Division A group of functions created to allow an organization to produce and dispose of its goods and services to customers.

If an organization subsequently grows and prospers, it often employs a second grouping by division and adopts a more complex form of divisional structure. A **division** is a group of functions created to specialize in making and selling a particular kind of good or service.¹⁹

Choosing a structure and then designing it so that it works as intended is a significant challenge. The ability to make the right kinds of organizing choices is often what differentiates effective from ineffective organizations. Organizational design is such an important decision because it affects the behavior of people in so many different ways. First, it affects employees' motivation to work hard and to develop supportive work attitudes. Second, it affects the likelihood that different groups, functions, or divisions will want to cooperate with one another, share resources, and work together effectively.²⁰ To be effective, an organization must decide how it wants its members to behave, what attitudes it wants to encourage, and what it wants its members to accomplish. Then it can make design choices based on these goals.

ADVANTAGES OF A FUNCTIONAL STRUCTURE

A functional structure offers several advantages when it comes to managing an organization's activities. All organizations (even relatively small ones) group their activities by function, at least to some extent, to capture the benefits that result from the division of labor and specialization.

Coordination Advantages. People grouped together according to similarities in their positions can easily communicate and share information with each other. As we saw in Chapter 14 on communication and Chapter 15 on decision making, people who approach problems from the same perspective can often make decisions more quickly and effectively than can people whose perspectives differ. A functional grouping also makes it easier for people to learn from one another's experiences. In this way, a functional structure helps employees improve their skills and thereby enhances individual and organizational performance.

Motivational Advantages. Grouping by function improves an organization's ability to motivate employees. When employees are grouped together by function, supervisors are in a good position to monitor individual performance, reward high performance, and discourage social loafing. Functional supervisors find monitoring easy because they usually possess high levels of skill in the particular function. Grouping by function also allows group members to monitor and control one another's behavior and performance levels. Functional grouping can also lead to the development of norms, values, and group cohesiveness that promote high performance (see Chapter 11). Finally, grouping by function creates a career ladder to motivate employees: Functional managers and supervisors are typically employees who have been promoted because of their superior performance.

DISADVANTAGES OF A FUNCTIONAL STRUCTURE

To manage the division of labor, most organizations develop a functional structure because of the coordination and motivation advantages associated with it. But as an organization continues to grow and its activities become more diverse and complex, a functional structure may no longer allow it to coordinate its activities effectively. It may even hinder the organization for any one of the following three reasons:

1. When the range of products or services that a company produces increases, its various functions can begin to experience difficulties. Imagine the problems that would occur, for example, if a company started to make cars, then went into

computers, followed by clothing, but used the same sales force to sell all three products. Most salespeople would not be able to learn enough about all three products quickly enough for the company to provide its customers good service.

2. Coordination problems may arise. As organizations attract customers with different needs, they may find it hard to service these different needs by using a single set of functions. The needs of individual customers, for example, are often very different from the needs of large corporate customers, although each still requires a high level of personalized service.
3. As companies grow, they often expand their operations nationally. Servicing the needs of different regional customers with a single set of manufacturing, sales, or purchasing functions becomes very difficult.

To cope with coordination problems such as these, organizations typically overlay their functional structures with divisional structures.

DIVISIONAL STRUCTURES: PRODUCT, MARKET, AND GEOGRAPHIC

When a divisional structure overlays its functional groups, an organization can coordinate its activities more effectively. Organizations can choose from three kinds of divisional structure: product, market, and geographic structures (see Figure 16.3). Each is suited to a particular kind of coordination problem facing an organization.²¹

Product Structure. When an organization chooses to group people and functions so that it can produce a wide variety of different products, it moves to a **product structure**. Each product division contains the functions necessary to service the specific goods or products. Figure 16.3A shows the product structure used by a company such as General Electric, which has many separate product-oriented divisions—for example, divisions responsible for producing lightbulbs, aerospace products, and appliances. Each of these divisions has its own set of functions (such as accounting, marketing, and research and development).

What are the advantages of a product structure? It allows a company to increase its division of labor so that it can make and sell a wider range of products. Dell, for example, created product divisions when it began to sell new electronic goods such as workstations, minicomputers, printers, and personal data assistants (PDAs) in the 2000s. Each product division is responsible for the success of its new products, so the members of each division focus their energies on making those products a success.

Market Structure. Sometimes the most pressing problem facing an organization is to deliver products to customers in a way that best meets customer needs. To accomplish this goal, an organization is likely to choose a **market structure** and group functions into divisions to respond to the needs of particular types of customers. (See Figure 16.3B.) For example, companies such as Staples and OfficeMax serve individual customers, but they also have large accounts with small companies and accounts with large companies and government agencies. Customers who buy large quantities of office supplies require special service and often demand special payment or delivery terms. To suit the specific needs of each group of customers, firms group their functions according to the type of customer needs. That way, each market division can specialize in and become more effective at meeting them.

Geographic Structure. When organizations expand rapidly both at home and abroad, functional structures can become problematic because managers in one central location may find it increasingly difficult to deal with the different issues

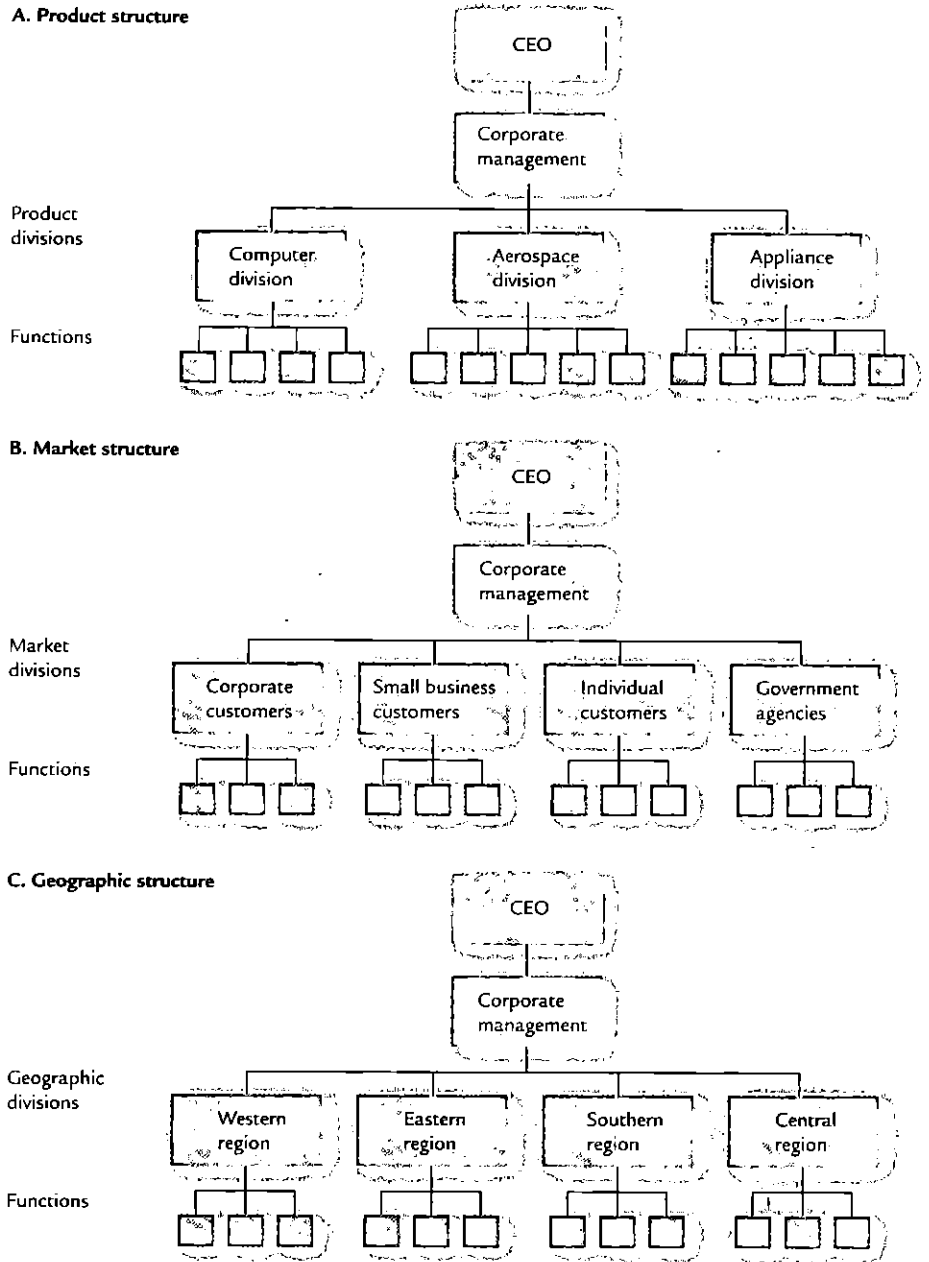


U.S. computer maker Dell is organized, in part, by function. Dell employees are grouped according to what they do: manufacturing, engineering, product development, sales, and so forth.

Product structure A divisional organizational structure that groups functions by types of product so that each division contains the functions it needs to service the products it produces.

Market structure A divisional organizational structure that groups functions by types of customers so that each division contains the functions it needs to service a specific segment of the market.

FIGURE 16.3
Three Types of
Divisional Structure



Geographic structure
 A division organizational structure that groups functions by region so that each division contains the functions it needs to service customers in a specific geographic area.

facing different regions. In these cases, a **geographic structure**, in which divisions are broken down by location, is often chosen (see Figure 16.3C). To achieve Federal Express’s corporate mission of providing next-day mail service, CEO Fred Smith chose a geographic structure with regional divisions. Large retailers such as Macy’s, Neiman Marcus, and Brooks Brothers also use a geographic structure. Because retail customers’ purchases can vary dramatically by region (more down parkas are likely to be sold in the Midwest than in California, for example), a geographic structure gives regional managers the flexibility they need to choose the range of products best suited to their customers.

If it adopts a *global geographic structure*, then an organization locates different divisions in each of the world regions in which it operates. Often, for example, products that appeal to U.S. customers do not appeal to customers in Europe, the Pacific Rim, or South America. The goal is to customize products to meet the needs of customers in those different world regions, and a global geographic structure allows an organization to do this.

ADVANTAGES OF A DIVISIONAL STRUCTURE

A divisional structure—whether it's based on products, markets, or geography—has coordination and motivational advantages that overcome many of the problems associated with a functional structure as the size and complexity of an organization increase.

Coordination Advantages. Because each division contains its own set of functions, functional groups are able to focus their activities on a specific kind of good, service, or customer. This narrow focus helps a division create high-quality products and provide high-quality customer service. Each product division, for example, has its own sales force that specializes in selling its particular product. This specialization enables salespeople to perform more effectively.

A divisional structure also facilitates communication between functions and can improve decision making, thereby increasing performance. Burlington Northern Santa Fe Railway began dividing up its shipping operations into product divisions by the commodities customers ship—cars, chemicals, food products, and so on. The change from a functional to a product structure allowed the company to reduce costs and make better use of its resources.²²

Similar kinds of advantages can result from using a market structure. Grouping different functions together in a market division to serve one type of customer enables the functions to coordinate their activities and better serve their customers. For example, KPMG, the third-largest accounting company in the United States, reorganized from a functional structure (in which people were organized into traditional functions such as accounting, auditing, taxes, and consulting) to a market structure. Employees in each of these functional areas were grouped together to serve customers in different industries, such as manufacturing, financial, and retail sectors, for example.²³ KPMG moved to a market structure to make better use of its human and other resources.

A geographic structure puts managers closer to the scene of operations than managers at central headquarters. Regional managers are well positioned to respond to the regional needs of customers and fluctuations in resources in those areas. Often they are able to find solutions to specific problems in those areas and use available resources more effectively than managers at headquarters can.

Finally, on an individual level, people who are grouped together into divisions are sometimes able to pool their skills and knowledge and brainstorm new ideas for products or improved customer service. As divisions develop a common identity and approach to solving problems, their cohesiveness increases, and the result is improved decision making.

Motivational Advantages. Grouping into divisions offers organizations a wide range of motivational advantages as well. First, a divisional structure gives rise to a new level of management: **corporate management** (see Figure 16.3). The responsibility of corporate managers is to supervise and oversee the managers of the various divisions. Corporate managers coordinate and motivate divisional managers and reward them on the basis of the performance of their individual divisions. A divisional structure makes it easier for organizations to evaluate the performance of individual divisions and their managers and reward them in a way that is closely linked to their performance.²⁴ Recall from Chapter 8 that a clear connection between performance and reward increases motivation. Corporate managers can also evaluate one regional operation against another and share ideas developed by one region with the others to improve performance.

A second motivational advantage is that divisional managers enjoy a large measure of autonomy because they—not corporate managers—are responsible for operations. Their autonomy tends to promote positive work attitudes and boost performance.

Corporate management
The set of managers whose responsibility is to supervise and oversee the divisional managers.

Another motivational advantage of a divisional structure is that regional managers and employees are close to their customers and more likely to develop personal relationships with them as a result. These relationships give the managers and employees an extra incentive to perform well. Finally, on an individual level, employees' close identification with their division can increase their commitment, loyalty, and job satisfaction.

DISADVANTAGES OF A DIVISIONAL STRUCTURE

Although divisional structures offer large, complex organizations a number of coordination and motivational advantages over functional structures, they have certain disadvantages as well. The disadvantages can be overcome with good management, but some of them are simply the result of the way a divisional structure works.

First, because each division has its own set of functions, the costs of operating and managing an organization increase. The number of managers in an organization, for example, increases because each division has its own set of sales managers, manufacturing managers, accountants, and so on. It also creates a completely new level of management that must be paid for—the corporate level of management.

Second, as we discuss later, communication may suffer when a divisional structure is implemented. Because divisional structures normally have more managers and more levels of management than functional structures, communication can become more complex as managers at various levels in different divisions attempt to exchange information with one another and coordinate their activities.

Third, divisions may start to compete for organizational resources and pursue their own goals at the expense of organizational goals. These conflicts reduce cooperation and can sometimes result in friction between divisions.

In summary, an organization must compare the benefits and costs of using a functional or a divisional structure. When the benefits exceed the costs, it should move to a divisional structure. Even with a divisional structure, however, an organization must manage the structure to overcome some of the disadvantages inherent to it and keep divisions and functions coordinated and motivated.

MATRIX STRUCTURE

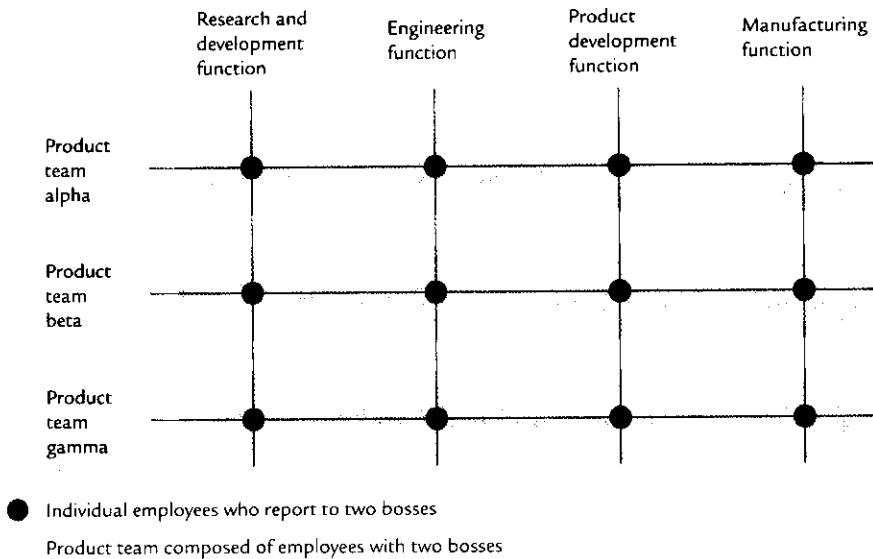
Moving to a product, market, or geographic divisional structure allows managers to respond more quickly and flexibly to the particular set of contingencies they confront. However, when the environment is dynamic and changing rapidly and uncertainty is high, even a divisional structure may not provide managers with enough flexibility to respond quickly enough.²⁵ This can occur, for example, when information technology or the needs of customers are evolving rapidly. In this case managers must design the most flexible kind of structure available to their organization. This is called the *matrix structure*.

In a **matrix structure**, managers group people and resources in two ways simultaneously: by function and by product.²⁶ Employees are grouped by *functions* to allow them to learn from one another and become more skilled and productive. In addition, employees are grouped into *product teams* in which members of different functions work together to develop a specific product. The result is a complex network of reporting relationships among product teams and functions that makes the matrix structure very flexible. Each person in a product team reports to two bosses: (1) a functional boss, who assigns individuals to a team and evaluates their performance from a functional perspective, and (2) the boss of their product team, who evaluates his or her performance on the team. Thus, team members are known as *two-boss employees*.

Figure 16.4 illustrates a matrix structure. The vertical lines show the functions of an organization, and the horizontal lines show the product teams responsible for devel-

Matrix structure An organizational structure that simultaneously groups people by function and by product team.

FIGURE 16.4
A Matrix Structure



oping or manufacturing the organization's products. At the intersection of the lines are employees who report to both a functional boss and a product boss. The members of the teams are each developing a specific product. One team in Figure 16.4 is working on the Alpha computer workstation for small businesses; another team is working on the Beta workstation designed for large corporate customers.

Coordination Advantages. Typically, a company uses a matrix structure (rather than an ordinary divisional structure) for three reasons:

1. It needs to develop new products very rapidly.
2. It needs to maximize communication and cooperation between team members.
3. Innovation and creativity are the key to the organization's continuing success.²⁷

Product teams permit face-to-face problem solving and create a work setting in which managers with different functional expertise can cooperate to solve nonprogrammed decision-making problems. Product team membership in a matrix structure is not fixed. Two-boss employees are transferred from team to team when their functional expertise is needed. For example, three electrical engineers work in the Alpha team to design the most efficient system to link electronic components. When they solve the Alpha design problem, they may then move to the Beta team if it requires their expertise. The flexibility of a matrix structure allows an organization to make the best use of its human resources.

Motivational Advantages. To understand how the matrix structure influences motivation, it is important to understand that the members of the product teams are generally highly qualified and skilled employees with advanced degrees and expertise in their fields. The matrix structure provides a work setting giving employees freedom and autonomy over their work activities. As we saw in Chapter 7, job design is important in determining work attitudes and behaviors, and many people enjoy jobs with a high motivating potential score. Matrix structures allow for such motivation and encourage work behaviors that enhance quality and innovation.

Disadvantages of a Matrix Structure. As you might expect, matrix structures have some disadvantages as well. Inherent to them are several properties that can cause job dissatisfaction. Matrix structures can increase role conflict and ambiguity (see Chapter 9), and high levels of stress within them can sometimes ensue. Two bosses

making conflicting demands on an employee can cause him or her to feel some role conflict; the very loose system of reporting relationships can make employees vulnerable to role ambiguity. The result is stress. Another source of discomfort for employees is that they might have trouble demonstrating their personal contributions to team performance because they move so often from team to team. For reasons such as these, some people dislike working within a matrix structure.²⁸

As this discussion suggests, the matrix structure is associated with the most complex coordination and motivational issues. On the one hand, it has enormous coordination advantages, but on the other hand, it can cause complex motivational problems. The extent of these problems explains why only companies that depend for their survival on rapid product development designed to meet very specific customer needs use matrix structures. They are especially common in high-tech and biotechnology companies.

SUMMARY

Large organizations are more complex than small organizations. They have a greater number and variety of functions and divisions because they produce a greater number and variety of goods and services. As organizations grow, they can implement one or more different organizational structures. Each structure offers coordination and motivational advantages and disadvantages, and each is suited to addressing a particular contingency or problem facing the organization. Most companies use a functional design to group organizational activities and then overlay it with a product, market, geographic, or matrix structure to manage the specific contingencies they face.

Coordinating Functions and Divisions

The first organizational design task is to group functions and divisions and create the organizational structure best suited to the contingencies an organization faces. The second organizational design task is to ensure that there is sufficient coordination or integration among functions and divisions so that the organization's resources are used effectively. Having discussed the way in which organizational activities are divided up into functions and divisions, we now look at how the parts are put back together. We look first at the way in which the hierarchy of authority is used to coordinate functions and divisions so that they work together well. Then we focus on integration and examine the many different integrating mechanisms that can be used to coordinate functions and divisions.

ALLOCATING AUTHORITY

As organizations grow and produce a wider range of goods and services, the size and number of their functions and divisions increase. To coordinate the activities of people, functions, and divisions, managers must develop a clear hierarchy of authority.²⁹

Authority is the power vested in a manager to make decisions and use resources to achieve organizational goals by virtue of his or her position in an organization. The **hierarchy of authority** is an organization's chain of command—the relative authority that each manager has—extending from the CEO at the top down through the middle managers and first-line managers to the nonmanagerial employees who actually make the goods or provide the services. In a hierarchy, each lower position is under the supervision of a higher one; as a result, authority links and integrates the activities of managers and employees across hierarchical levels. The term **span of control** refers to the number of subordinates who report directly to a manager.

Authority The power that enables one person to hold another person accountable for his or her actions.

Hierarchy of authority An organization's chain of command that defines the relative authority of each level of management.

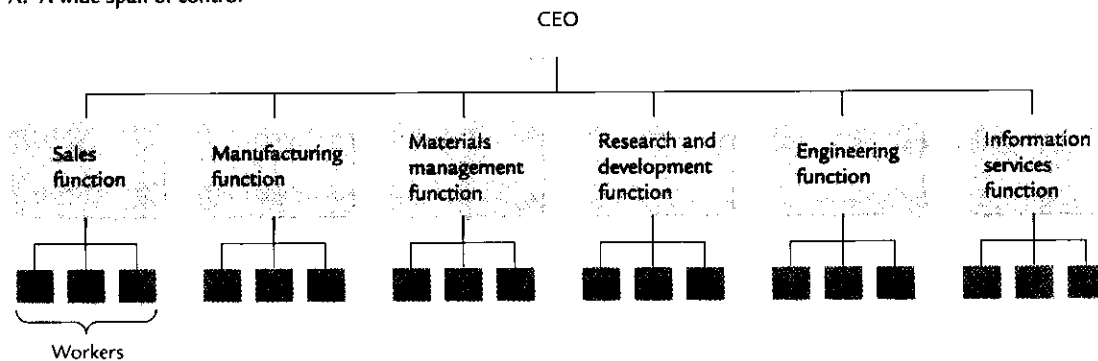
Span of control The number of employees who report to a manager.

Recall from the last section, for example, how the position of divisional manager emerges when an organization splits apart into divisions and how a corporate-level manager emerges to integrate the activities of divisional managers. Similarly, a hierarchy emerges inside each function to integrate the activities of employees within each function. As an organization grows and the problem of integrating activities within and between functions and divisions increases, the organization typically increases the number of levels in its hierarchy. As it does so, the span of control narrows.³⁰

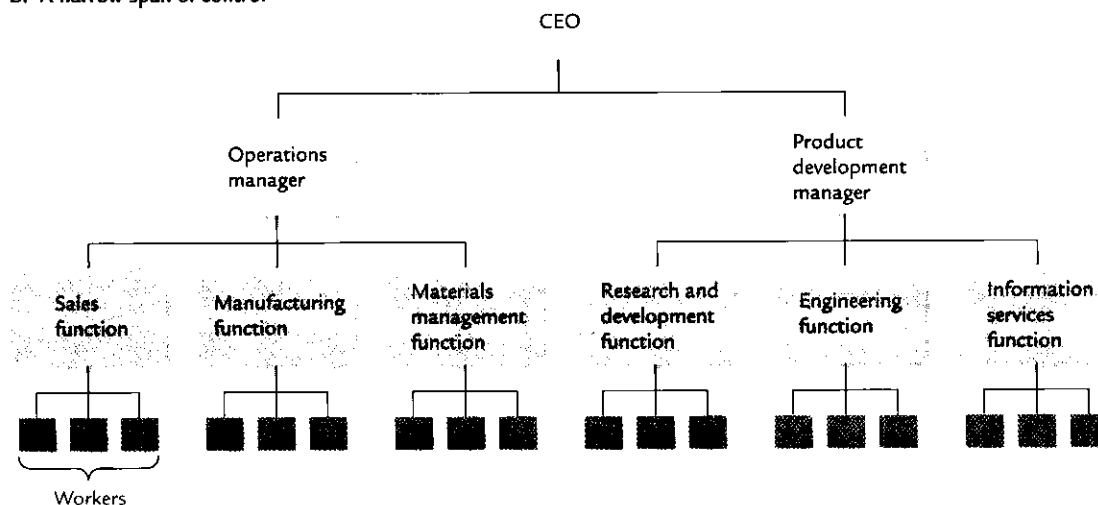
Compare the hierarchies shown in Figures 16.5A and 16.5B. The CEO in Figure 16.5A supervises six different functions, so the CEO's span of control is six subordinates. There are three levels in the hierarchy—the CEO, the managers in charge of each function, and the employees who report to each functional manager. Suppose the CEO decides that he can no longer effectively monitor the activities of the six functions because they are growing so rapidly. One way of solving this problem is to create a new level in the hierarchy. To do this, the CEO adds a level to the hierarchy by creating the positions of operations manager and product development manager, as shown in Figure 16.5B. Each of the new managers supervises three functions. These two managers and the CEO then work together as a team to integrate the activities of all six functions. The organization now has four levels in the hierarchy, the CEO's span of control narrows from six to two, and the span of control of the two new managers is three. Increasing the number of levels in an organization's hierarchy increases the coordination between the activities of different functions. Also, as the number of levels in the organizational hierarchy increases, the span of control narrows, so managers are better able to coordinate and motivate their subordinates.

FIGURE 16.5
Using the Hierarchy to Manage Intergroup Relations

A. A wide span of control



B. A narrow span of control



Tall and Flat Hierarchies. The number of levels in a hierarchy varies from organization to organization. In general, the larger and more complex an organization is, the taller is its hierarchy. Tall organizations have many hierarchical levels relative to their size; flat organizations have few (see Figure 16.6).

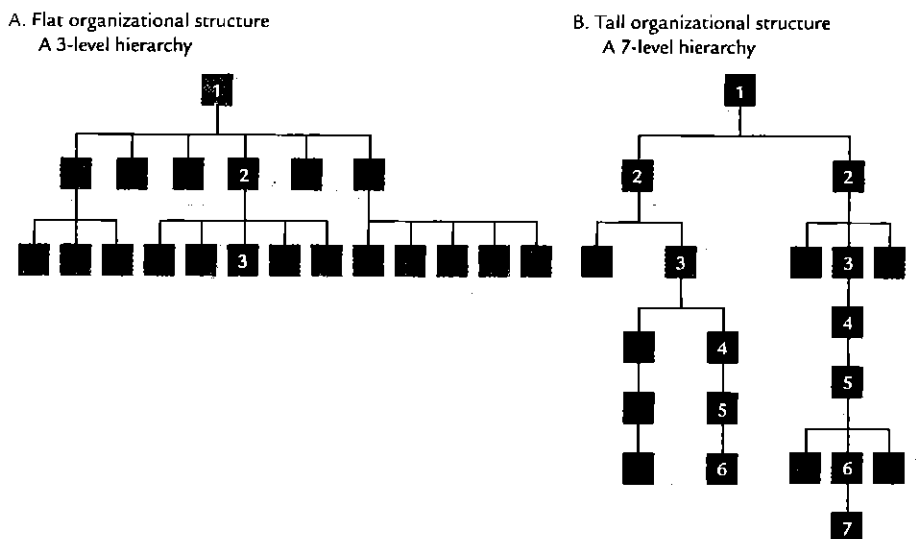
Just as it becomes more difficult to coordinate the activities of different functions as their number increases, it becomes more difficult to achieve coordination between hierarchical levels when an organization’s hierarchy becomes too tall. Communication and decision-making problems start to occur. As the number of managerial levels increases, the time it takes to send messages up and down the chain increases. The result is slower decision making. In addition, information passed from person to person is more likely to get distorted or filtered as messages become garbled and managers interpret them according to their own interests. These problems detract from the quality of decision making. In fact, all the communications problems discussed in Chapter 14 increase as an organization’s hierarchy becomes taller and taller.

The Minimum Chain of Command. An important organizational design principle is the *principle of the minimum chain of command*. A minimum chain of command principle can help mitigate problems that ensue when the hierarchical structure becomes too tall. The principle states that an organization should operate with the fewest levels possible. Effective organizations should scrutinize their hierarchies to see whether the number of levels can be reduced—for example, whether one level can be eliminated and its responsibilities assigned to managers or employees above or below it.

This practice has become increasingly common in the United States as companies battling low-cost global competitors search for ways to cut costs. One manager who is constantly trying to empower employees and keep the hierarchy flat is Colleen C. Barrett, the number-two executive of Southwest Airlines.³¹ At Southwest, she is well known for continually reaffirming the company’s message that employees should feel free to go above and beyond their prescribed roles to provide customers better service. Southwest employees are encouraged not to look to their superiors for guidance but rather to themselves to find ways to do their jobs better. As a result, Southwest keeps the number of its middle managers to a minimum.

Centralization Versus Decentralization. Another way to keep the organizational hierarchy flat is to decentralize authority to lower-level managers and nonmanagerial employees.³² When lower-level managers and nonmanagerial employees

FIGURE 16.6
Examples of Flat and Tall Hierarchies



have the responsibility to make important decisions, the problems of slow and distorted communication noted previously are kept to a minimum. This can increase motivation by making lower-level jobs more interesting and rewarding. Moreover, fewer managers are needed because their role is not to make decisions but to act as coach and facilitator and to help other employees make the best decisions.

Decentralizing authority allows an organization and its employees to behave in a flexible way even as the organization grows and becomes taller. This is why managers are so interested in empowering employees, creating self-managed work teams, establishing cross-functional teams, and even moving to a product team structure.

Although more and more organizations are taking steps to decentralize authority, too much decentralization has certain disadvantages. If divisions, functions, or teams are given too much decision-making authority, they may begin to pursue their own goals at the expense of the organization's goals. Managers in engineering design or R&D, for example, may become so focused on making the best possible product that they fail to realize that the best product may be so expensive that few people will be willing or able to buy it! Also, with too much decentralization, a lack of communication among functions or divisions may prevent synergies among them from materializing and organizational performance may suffer.

An organization must seek the balance between centralization and decentralization of authority that best meets the major contingencies it faces. If an organization operates in a stable environment using well-understood technology, for example, then there is no pressing need to decentralize authority, and top-level managers can make most of the decisions.³³ However, in uncertain, changing environments like those in surrounding high-tech industries, companies are speeding new products to market. Employees and teams must be empowered to make important decisions so that the organization can keep pace with the changes taking place. These companies are more likely to prefer a higher degree of decentralization.

In summary, the design of the organizational hierarchy is one of the most important decisions an organization makes as it attempts to coordinate its functions and divisions and achieve its goals. Managers need to continually scrutinize the hierarchy to make sure it meets the organization's needs, and they must be prepared to change it if it does not. We discuss issues and problems in changing organizational structure in detail in Chapter 18.

MUTUAL ADJUSTMENT AND INTEGRATING MECHANISMS

The organizational hierarchy is an important method of coordination because it links and allows the activities performed by employees at all levels of the organization to be controlled. If necessary, for example, the operations manager in Figure 16.5B can tell the sales, manufacturing, and materials management managers what to do and how to coordinate their activities. However, the operations manager cannot tell the product development manager what to do because the two managers are at the *same level in the hierarchy*. Furthermore, the operations manager cannot tell anyone in R&D, engineering, or information systems what to do even though they are at a lower hierarchical level because they do not report to the operations manager. These functions report to the product development manager, who is responsible only to the CEO. Ultimately, only the CEO, the person at the top of the hierarchy, has the authority to tell everyone in the organization what to do, and that is why an organization's top manager is so powerful.

Because managers at the same level or in different functions have no power over each other, organizations need to use tools other than the organizational hierarchy to coordinate their activities. One important form of coordination takes place through mutual adjustment and the use of integrating mechanisms. **Mutual adjustment** is the ongoing communication among different people and functions that is necessary for an

Mutual adjustment The ongoing informal communication among different people and functions that is necessary for an organization to achieve its goals.

Integrating mechanisms
Organizing tools used to increase communication and coordination among functions and divisions.

organization to achieve its goals. Mutual adjustment makes an organization's structure work smoothly because it facilitates communication and the free flow of information between functions. Mutual adjustment, for example, prevents the emergence of different orientations that can cause significant communication and decision-making problems between functions and divisions.

To facilitate mutual adjustment, organizations use various kinds of integrating mechanisms. **Integrating mechanisms** are organizing tools used to increase communication and coordination among functions and divisions. Here we discuss several kinds of integrating mechanisms that facilitate mutual adjustment in the order of their importance.³⁴

Direct Contact. With direct contact, managers from different functions establish face-to-face working relationships that allow them to solve common problems informally without having to go through the formal channels of authority in the hierarchy. In a functional structure, for example, managers in sales try to develop good, informal working relationships with managers in manufacturing so that both can simultaneously make decisions to achieve their goals. Reaching agreement may not be easy because the goals of the two groups are not always identical. Manufacturing's goal is to keep costs at a minimum; to do this it is often necessary to maintain production according to a particular schedule to smoothly manufacture goods in large batches. The goal of the sales function is to respond to the needs of customers; it often needs to ask manufacturing to change production schedules on short notice to accommodate unexpected customer requests. Because such sales-dictated changes raise manufacturing's costs, the potential for conflict arises. A high level of direct contact between sales and manufacturing managers, however, can lead to a give-and-take relationship that fosters cooperation between functions.

Liaison Roles. Because organizations recognize that direct contact is important, they often establish liaison roles giving specific functional managers the *formal* responsibility of communicating with managers in another function to solve common problems. To facilitate communication, managers in liaison roles meet regularly to exchange information, and members of one function transmit requests to other functions through these liaison personnel. Over time, the personal working relationships that develop between the managers performing these roles enhance coordination throughout the organization.

Teams and Task Forces. Organizations often create teams and task forces composed of employees from different functions to facilitate communication and cooperation. Whereas a team is a permanent group made up of representatives from two or more functions that meets regularly, a task force is a temporary, or *ad hoc*, group set up to solve a specific problem. An organization might set up a task force to study problems it expects to encounter as it expands its operations into another country, for example. After the task force comes up with a solution to the problem to which it is assigned, it disbands.

In contrast, an organization may use a team to increase coordination between functions such as the product development team shown in Figure 16.7. Because product development is an ongoing activity, an organization is likely to create a permanent team composed of members from several functions whose job it is to constantly scrutinize new product ideas and make recommendations about the ones that should be funded.

The important role teams and task forces play to promote mutual adjustment cannot be overemphasized. It has been estimated that managers spend over 70 percent of their time in face-to-face meetings with other managers making decisions and solving problems that cannot be dealt with through the formal hierarchy or in any other way.³⁵

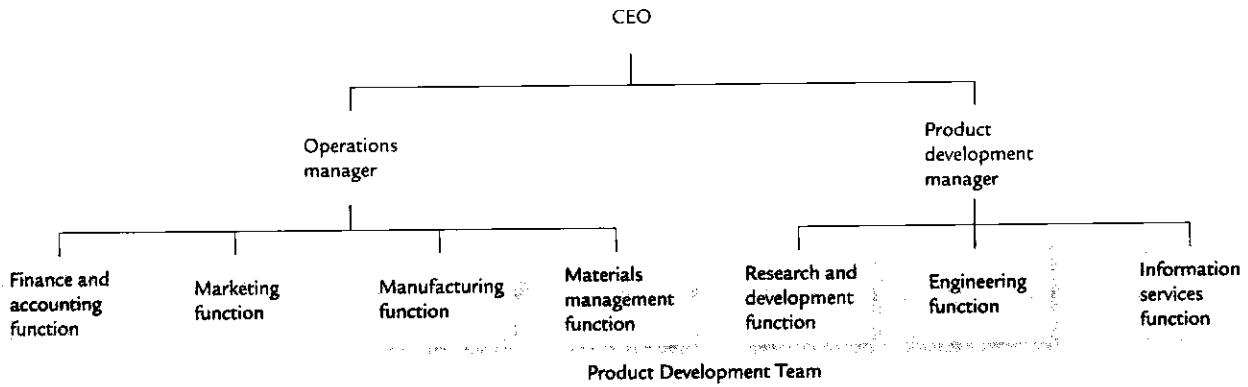
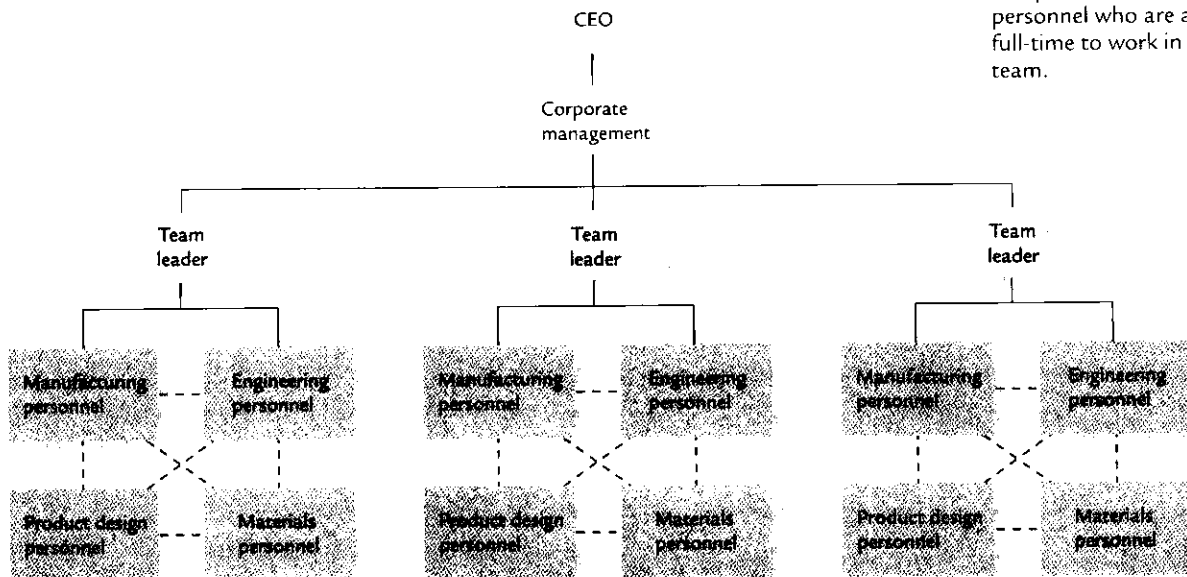


FIGURE 16.7
Using a Team to Increase Coordination Between Functions

Cross-Functional Teams. Recently, many organizations have implemented cross-functional teams to facilitate mutual adjustment. *Cross-functional teams* consist of people from different functions who are permanently assigned to work full-time on a team to bring a new good or service to the market.³⁶ Cross-functional teams are different from ordinary teams in several ways. Members of an ordinary team are full-time members of the same function or division; members of cross-functional teams are full-time members of different functions or divisions and report to the leader of the team. Figure 16.8 shows an example of a cross-functional team structure formed to facilitate mutual adjustment.

Hallmark Cards moved to a cross-functional team structure when it decided to organize its tasks according to specific types of cards—birthday cards, Christmas cards, Mother’s Day cards, and so on. Rather than having card designers, artists, rhyme writers, and other specialists work in separate functions, Hallmark assigned them to cross-functional teams to reduce the need to coordinate among functions. The new structure greatly speeded product development. A new card used to take a year to get to the market; now it takes only a few months. Chrysler Corporation was a pioneer in the use of cross-functional teams, which have greatly contributed to its current strong performance in the car market as the accompanying OB Today discusses.

FIGURE 16.8
A Cross-Functional Team Structure
Cross-functional teams are composed of functional personnel who are assigned full-time to work in the team.



ob today

DaimlerChrysler's Cross-Functional Product Team Structure

After almost going bankrupt in the early 1990s, Chrysler earned record profits in the 1990s and merged with Daimler Benz to form DaimlerChrysler in 1998.³⁷ Daimler's desire to merge with Chrysler came about because Chrysler had pioneered the use of cross-functional teams and new information technology to lower manufacturing costs and speed the introduction of new products. Daimler needed this expertise.³⁸

Chrysler's decision to use cross-functional teams linked to a sophisticated computer network came about in the following way. In 1988, Chrysler acquired American Motors (AMC) and its 700 design engineers. Rather than distributing these engineers among Chrysler's different engineering functions—transmissions, brakes, engines, and so on—Chrysler made a radical decision. It chose to keep the engineers together and have all 700 of them work together in a cross-functional team devoted to redesigning the Jeep Grand Cherokee, infamous among consumers for its poor reliability.

The 700 engineers from all areas of design engineering worked together on a single huge work floor. They were joined by marketing, finance, purchasing, and other functional experts who gave them information about customers' needs, input costs, and so on. All of the information communicated between functional specialists was recorded and exchanged electronically through sophisticated computer systems so that each member of the team knew what the others were doing. Top management then gave the team a target price for the car and told the team to design it to fit within that price range. The result was astounding. The new design was finished in just two years, and the Jeep Cherokee was an instant success when it was introduced in 1992. Chrysler was so pleased with the results the cross-functional team achieved that it decided to change the entire structure of the company from one that revolved around functions to one that utilized cross-functional teams.

In the new structure, functional personnel are assigned to one of four major teams—the small car, large car, minivan, or Jeep truck team—and each team has its own vice president. Chrysler also built a \$1 billion technology center with separate floors to house each team. Its cross-functional team structure allows Chrysler's functional experts to meet and share ideas to speed the development process. It also allows for the intense interaction among people that is necessary for successful innovation and product development.

The biggest challenge Chrysler faced after its merger with Daimler was not just transferring new product information from one team to another but also transferring information to its far-flung German and U.S. operations so that all design teams could quickly capitalize on the advances made by the other teams. For example, Mercedes-Benz, Daimler's car division, is renowned for the high quality and safety of its cars; Chrysler's managers wanted to disseminate that expertise to the personnel making its brands.³⁹ The result was an outpouring of new, innovative vehicles in the 2000s such as the Chrysler Crossfire, Pacifica, and PT cruiser convertible.⁴⁰



DaimlerChrysler employees assemble one of the company's best-selling lines—the PT Cruiser cars.

STANDARDIZATION

The third principal tool that organizations can use to coordinate their activities and integrate functions and divisions is **standardization**—the development of programmed responses, performance standards, written rules, and standard operating procedures (SOPs) that specify how employees and functions should respond to recurring problems or opportunities. An organization can standardize activities at the input, conversion, and output stages.⁴¹

Standardization The development of routine responses to recurring problems or opportunities.

Standardizing Inputs. Organizational inputs include the skills and capabilities of managers and employees, the quality of the raw materials and component parts used to make products, and the machinery and computers used in the production process. Organizations develop performance standards, such as quality or reliability specifications, used to evaluate and assess inputs before they are put into production. Japanese car companies, for example, are renowned for the stringent quality specifications that they require suppliers of car components such as engine blocks to meet. Increasingly, more global companies are recognizing that high input standards result in a higher-quality products.

Organizations can standardize the skills of their managers and employees by requiring them to have certain qualifications and experiences. An assembly-line employee might be required to have a high school diploma, an R&D scientist might be required to have a Ph.D. from a prestigious research university, and a CEO might be required to show that he or she has successfully managed similar kinds of businesses in the past. Organizations that recruit and select employees who meet stringent criteria can be relatively confident that their employees will respond in appropriate ways to uncertain events. This is why organizations spend so much time recruiting and selecting employees.

Standardizing Conversion Processes. To standardize the conversion processes an organization uses to make the final product, organizations specify the kinds of behavior they expect from their employees. When these behaviors are specified, both individuals and groups are more likely to act consistently in ways that allow an organization to achieve its goals. The principal way in which organizations standardize behaviors is through the use of rules and standard operating procedures (SOPs). (See Chapter 10.)⁴² Because rules and SOPs specify the series of actions or decisions that employees are expected to perform in a given situation, they standardize employee responses to the situation.

Formalization is the use of rules and standard operating procedures to control an organization's activities. The more an organization can rely on formalization to specify required behaviors, the less it needs to use either direct supervision from the hierarchy or mutual adjustment. Formalization results in lower operating costs, once rules have been developed. They are also inexpensive to implement and cost the organization little to maintain. All that is required is that new employees be taught the appropriate rules to follow in certain situations. (Recall from Chapter 10 that socialization is the process by which employees learn organizational rules and SOPs.)

Formalization The use of rules and standard operating procedures to control an organization's activities.

Although some rules are necessary to the smooth running of an organization, too many rules can give rise to a number of problems:

- ◆ Excessive formalization can “straitjacket” employees and prevent them from responding creatively and flexibly to new situations.
- ◆ Employees' inclination to obey rules without thinking about their consequences can reduce the quality of organizational decision making.
- ◆ Too much emphasis on the use of existing rules and procedures can make it especially difficult for an organization to make changes and develop new rules.

Despite these drawbacks, formalization is a powerful tool as the accompanying OB Today suggests.

ob today

This Dot-Com Thrives on Rules

Most people don't associate high-tech, dot-com companies with elaborate rule systems and SOPs. Normally, we would think that the need to adjust to rapid technological change would dictate a decentralized structure. There are exceptions, however. One exception was a company called siteROCK based in Emeryville, California.

Before later being acquired by Avasta, a San Francisco firm, siteROCK hosted and managed other companies' Web sites, and was known for its ability to keep them up and running and error free. When a site went down at siteROCK, it was enemy number one.

The company was run by Dave Lilly, who was once nuclear submarine commander. To maximize the performance of his employees and increase their ability to respond to unexpected online events, Lilly decided the siteROCK needed a comprehensive set of rules and SOPs to cover all the major known problems that could crash a site.⁴³ He insisted that every problem-solving procedure be written down. siteROCK had over 30 thick binders listing all the processes and checklists that employees needed to follow when an unexpected event happened.

At siteROCK, these written rules and SOPs were used to control employee behavior to achieve high levels of customer service. Because the goal of the company was 100 percent reliability, detailed blueprints guided planning and decision making—not seat-of-the-pants solutions that might have worked 80 percent of the time but resulted in disaster the other 20 percent of the time. Before siteROCK employees were allowed in the control room each day, they had to read over the most important rules and SOPs. At the end of a shift, they spent 90 minutes doing paperwork logging what they had done and detailing any new or improved rules that they came up with.

Moreover, Lilly instituted a "two-person rule." Whenever the unexpected happened, each employee had to immediately tell a co-employee and the two together would then attempt to solve the problem. The goal was simple: Use the rules to achieve a quick resolution to a complex issue. If the existing rules didn't work, then employees were told to experiment. When they found a solution, it went into the rule book to aid the future decision making of all employees in the organization.

Formal sets of rules undoubtedly helped siteROCK achieve a great deal of operational control—for a time. Lilly tried to control the things he could at siteROCK, but there were other things he couldn't. Amid a wave of consolidation in the IT industry beginning in 2002, siteROCK was acquired by Avasta, which provided outsource services to companies running large-scale applications like Oracle and PeopleSoft. Six months later, Avasta was acquired by NaviSite, a Massachusetts IT company.

Standardizing Outputs. Finally, output standards are also an effective way to standardize behavior. Instead of specifying the behaviors the organization expects from its employees with rules and SOPs, the organization specifies what the final output of its employees must be for the organization to achieve its goals.⁴⁴

Imagine, for example, how difficult it is for a manager to monitor the behavior of employees such as salespeople or R&D scientists. It is impossible to watch a scientist to see how well he or she "does research." Likewise, the cost involved to have managers shadow salespeople and give them instructions would be exorbitant. So, organizations specify the level of performance they require from their employees and set standards—or performance goals—by which to measure actual employee outputs. In the case of

salespeople, for example, an organization might set a sales target for how much each salesperson should sell each month or how many customers they should visit each day. Specifying the goals for researchers is more difficult because their work is so long term and complex, but an R&D function can be measured by the number of new products it develops or the number of new patents that it files. As we saw in Chapter 7, setting specific, challenging goals can be an effective way to motivate employees.

By using specific goals and targets to measure the performance of individuals and groups, an organization increases the control it has over their activities. The more ways an organization can devise to measure its performance, the more effective it becomes.

New IT-Enabled Forms of Organizational Design and Structure

The increasing use of new information technology is changing the nature of organizational design and structure.⁴⁵ The principal reason is because IT changes companies and allows them to behave in more flexible, organic ways. The effects of IT on organizational design can be seen both inside and between organizations.⁴⁶

THE EFFECTS OF IT INSIDE ORGANIZATIONS

In the last decade, information technology has had a dramatic effect on the way in which organizations group and coordinate their activities.⁴⁷ First, IT increases communication and coordination and promotes mutual adjustment among teams, functions, and divisions.⁴⁸ Second, IT permits the greater decentralization of decision making because employees have instant access to the information they need to make a decision.⁴⁹ The opening case showed how Sun Life Financial used IT to reorganize from a functional structure to one based on cross-functional product teams. Company's new IT system gave teams the information they needed to handle each customer's specific request. As a result of using IT, organizations no longer need tall management hierarchies. They can operate with flatter structures that speed decision making and enable the organization to act in a more flexible and organic way.

Some organizations, especially those that provide complex services and employ highly trained workers, have gone one step further and created what has been called a virtual organization. A **virtual organization** is one in which employees are linked to an organization's centralized databases by computers, faxes, and videoconferencing and rarely see one another face-to-face, if ever.⁵⁰ These employees might only infrequently visit the physical premises of their companies; they receive their assignments electronically, report back to their superiors electronically, and operate autonomously.⁵¹ Almost all their employees are out in the field, working anywhere around the globe working with clients to solve their problems. Large consultancy companies like EDS and Accenture operate in this fashion as the following OB Today illustrates. It provides an interesting example of how IT, by decentralizing authority to employees, can promote flexibility and allow a company to behave organically.

Virtual organization

A company that operates largely using new information technology in which people and functions are linked through company intranets and databases.

THE EFFECTS OF IT BETWEEN ORGANIZATIONS

Another innovation in organizational design—the use of outsourcing and networking structures between organizations—has largely been the result of information technology. Recall from Chapter 1 that *outsourcing* involves moving a functional activity that was done *inside* an organization to the *outside*, where another company

ob today

Accenture's "Virtual" Organization

Accenture, a global management consulting company, has been one of the pioneers in using IT to revolutionize its organizational structure. Its managing partners realized that because only its consultants in the field could diagnose and solve clients' problems, the company should design a structure that facilitated creative, on-the-spot decision making. To accomplish this, Accenture decided to replace its tall hierarchy of authority with a sophisticated IT system to create a virtual organization.⁵²

First, it flattened the organizational hierarchy, eliminating many managerial levels. Then it went about setting up a shared organization-wide IT system that provides each of Accenture's consultants with the information and knowledge they need to make their own decisions. If the consultant still lacks specific knowledge to solve a client's problem, the system is designed to provide data from Accenture's thousands of consultants located around the globe who can provide each other with expert backup help.⁵³

To implement the change, Accenture first equipped every one of its consultants with a wireless laptop computer, and each consultant was linked to the others via a sophisticated corporate intranet, depending on the particular kind of client he or she served. For example, consultants who work with consumer product firms are linked together in one group, and those that work with brokerage companies are linked together in another. Often the members of these groups e-mail their counterparts working at different client sites to see if any of them have encountered a client problem similar to one they are presently facing and what they did to solve it. If members of the consultant's core group can't solve the problem, he or she can then communicate with members of other groups by tapping into Accenture's large information databases containing volumes of potentially relevant information. The consultant can also communicate directly with other company employees through a combination of



Because its employees are scattered at client sites worldwide, Accenture, a global management consultant company, linked them together electronically, transforming itself into a virtual organization. Being able to access one another and problem-solution databases electronically has helped consultants working solo solve more problems.

phone, voice mail, e-mail, and teleconferencing in an attempt to gain access to more current information presently being gathered and applied at other client sites.⁵⁴

Often employees uncover useful information that can pertain to other employees in very different areas of the firm. For example, if the project involves installing an enterprise-wide computer system, the consultant has quick access to the information of hundreds of others consultants who have dealt with the software in question but applied it in different contexts. By utilizing these resources consultants stay abreast of the innovative practices being implemented within their own firm and within client firms.

Accenture found that the effects its virtual organization had on flattening the structure, decentralizing authority, and enlarging and enriching roles increased the creativity of its consultants and enhanced their performance. By providing employees with more information and enabling them to easily confer with other people, Accenture gave its consultants much more freedom to make decisions. Moreover, because they often work far away from Accenture's headquarters, the electronic connections have made consultants much more independent. They are able to make their own decisions, which has been a source of motivation. The end result for Accenture is that it is now one of the best-known global consulting companies.⁵⁵

performs it. Many companies have found that the use of the Internet and software platforms linking organizations together in real time makes it easier and cheaper for them to send a specific kind of functional activity, such as making component parts, manufacturing the final product, or even managing the IT function itself, to other companies to perform. For example, the U.S. military signed a 10-year, \$15 billion contract to let EDS, the computer services company, manage its vast array of computer networks and information systems. The move to outsource manufacturing to low-cost countries such as China and Malaysia has been accelerating. Companies such as Black and Decker, Sony, and Levi-Strauss now contract with manufacturers abroad to produce most, if not all, of their products, which are then shipped to the markets in which they will be sold.

Some companies radically alter their organizational structures by focusing only on that one specific functional activity such as product design or research and development at which they excel and then outsource the rest of their functional activities to other companies. In doing so, they operate within what is called a **network structure**.⁵⁶ Nike, for example, the largest and most profitable sports shoe manufacturer in the world, uses a network structure to make, distribute, and sell its shoes.⁵⁷ At the center of the network is Nike's product design and research function located in Beaverton, Oregon, where Nike's designers are constantly developing new, innovative sports shoe designs. However, that is almost all that Nike does in Beaverton, besides the corporation's administrative activities. All the other functional work that Nike needs to make and sell its shoes has been outsourced to companies around the world. Nike manages its relationships with the companies in its network through advanced IT. Its designers use sophisticated computer software systems to design its shoes, and all of the new product information, including its technical and manufacturing instructions and specifications, is stored electronically. When the designers have completed their work, they then relay the blueprints for the new products electronically to Nike's network of suppliers and manufacturers in Southeast Asia.⁵⁸ For example, instructions for the design of a new sole may be sent to a supplier in Taiwan and instructions for the leather uppers to a supplier in Malaysia. These suppliers then produce the shoe parts, which are subsequently sent for final assembly to a manufacturer in China with whom Nike has established an alliance. From China, the shoes are shipped to distributors throughout the world and are marketed in each country by organizations having contracts with Nike.

The advantage of this network structure is that Nike can respond quickly and flexibly to changes in customer needs and tastes. If demand for a particular kind of shoe drops and demand for another soars, Nike can rapidly transmit new instructions to its network of manufacturers abroad to change their production plans. Moreover, because it does not have to coordinate many different functional activities, Nike can preserve its flat hierarchy and stay small and nimble. In essence, a network structure allows Nike and many other companies to act in an organic way.

Companies are increasingly recognizing the many opportunities outsourcing and networking afford when it comes to reducing costs and increasing flexibility. Clearly, managers have to carefully assess the relative benefits of having their own organization perform a functional activity or make a particular product versus forming an alliance with another organization to do it. As you can see, designing an organizational structure is becoming increasingly complex in today's rapidly changing global world.

Network structure A structural arrangement whereby companies outsource one or more of their functional activities to other specialist companies.

Summary

Organizational structure affects how people and groups behave in an organization by providing a framework that shapes employee attitudes and behavior. Organizations need to create a structure that allows them to coordinate and motivate people, functions, and divisions effectively. This chapter makes the following major points:

1. Organizational structure is the formal system of task and job reporting relationships that determines how employees use resources to achieve organizational goals. Organizational design is the process of making the specific choices about tasks and job relationships that result in the construction of a particular organizational structure.
2. Contingency theory argues that an organization's structure needs to be designed to fit or match the set of contingencies—factors or conditions—that affect it the most and cause it the most uncertainty. Three important contingency factors are the organizational environment, advances in technology (especially information technology), and an organization's human resources.
3. The greater the level of uncertainty in the environment, the more complex its technology, and the more highly skilled its workforce, the more likely are managers to design an organic structure, one that is flexible and that can change quickly. The more stable the environment, the less complex its technology, and the less skilled its workforce, the more likely an organization is to have a mechanistic structure, one that is formal, controlling, and designed to induce employees to behave in predictable, accountable ways.
4. The main structures that organizations use to differentiate their activities and to group people into functions or divisions are functional, product, market, geographic, and matrix structures. Each of these is suited to a particular purpose and has specific coordination and motivation advantages and disadvantages associated with it.
5. As organizations grow, problems of coordinating activities between functions and divisions arise. Three methods organizations can use to solve coordination problems are to use the hierarchy of authority, mutual adjustment, and standardization.
6. To coordinate their activities, organizations develop a hierarchy of authority and decide how to allocate decision-making responsibility. Two important choices that they must make are how many levels to have in the hierarchy and how much authority to decentralize to managers throughout the hierarchy and how much to retain at the top.
7. To coordinate their activities, organizations develop mechanisms for promoting mutual adjustment (the ongoing informal communication and interaction among people and functions). Mechanisms that facilitate mutual adjustment include direct contact, liaison roles, teams and task forces, and cross-functional teams.
8. Organizations that use standardization to coordinate their activities develop programmed responses and written rules that specify how people and functions are to coordinate their actions to accomplish organizational objectives. Organizations can standardize their input, throughput, and output activities.

Exercises in Understanding and Managing Organizational Behavior

Questions for Discussion and Review

1. What is the relationship between organizational design and structure?
2. What contingencies would cause an organization to choose an organic rather than a mechanistic structure?
3. Why do organizations group activities by function?
4. Why do organizations move to some kind of divisional structure?
5. What kind of organizational structure would you expect to find in (a) a fast-food restaurant, (b) a company such as General Electric or General Motors, and (c) a biotechnology company?
6. What kind of structure does your college or business use?
7. Why is coordinating functions and divisions a problem for an organization?
8. What are the main issues in deciding on the design of an organization's hierarchy of authority?
9. Why is mutual adjustment an important means of integration in most organizations?
10. What kinds of organizational activities are easiest to standardize? What kinds are most difficult?

Building People Skills

Understanding Organizational Structure

Think of an organization that you are familiar with—a university, restaurant, church, department store, or an organization that you have worked for—and answer these questions:

1. What form of structure does the organization use to group people and resources? Draw a diagram showing the major functions. Why do you think the organization uses this form of structure? Would another form of structure (for example, divisional) be more appropriate?
2. How many levels are there in the organization's hierarchy? Draw a diagram showing the levels in the hierarchy and the job titles of the people at each level. Do you think this organization has the right number of levels in its hierarchy? How centralized or decentralized is authority in the organization?
3. To what degree does the organization use mutual adjustment and standardization to coordinate its activities? What mechanisms does it use to increase mutual adjustment? Does it use teams or cross-functional teams? What kinds of rules and standard operating procedures does it use?

A Question of Ethics

How to Lay Off Employees?

You are the manager(s) charged with reducing high operating costs. You have been instructed by the CEO to eliminate 25 percent of the company's workforce, both managers and employees. You also must manage the layoff process and then find a new way to allocate authority in the company to increase efficiency.

Some managers charged with deciding which employees should be laid off might decide to keep the employees whom they like, and who are obedient to them, rather than the ones who are difficult or the best performers. They might decide to lay off the most highly paid employees. When redesigning the hierarchy, they might try to keep most of the power and authority in their hands. Think of the ethical issues involved in layoffs and organizational design and answer the following questions:

1. What ethical rules should managers use when deciding which employees to terminate?
2. What ethical rules can help managers to best allocate authority and design their hierarchies?
3. Why can the use of ethical principles help managers make the layoff process less painful for employees?
4. What effects do you think the way the layoff is carried out will have on the employees who remain?

Small Group Break-Out Exercise

Speeding Up Web Site Design

You have been called in as consultants by the top functional managers of a Web site design, production, and hosting company whose new animated Web site designs are attracting a lot of attention and a lot of customers. Currently, employees are organized into different functions such as hardware, software design, graphic art, Web site hosting as well as functions such as marketing and human resources. Each function takes its turn to work on a new project from initial customer request to final online Web site hosting.

The problem this company is experiencing is that it typically takes one year from the initial idea stage to the time that the Web site is up and running. The company wants to shorten this time by half to protect and expand its market niche. The managers believe their current functional structure is the source of the problem because it is not allowing employees to develop Web sites fast enough to satisfy customers' demands. They want you to suggest a better organizational structure.

1. Discuss ways in which you can improve the way the current functional structure operates to speed Web site development.
2. Discuss the pros and cons of changing to a matrix structure to reduce Web site development time. Then discuss the pros and cons of using cross-functional teams to coordinate activities between functions.
3. Which of these structures do you think is most appropriate and why?

Topic for Debate

Different kinds of organizational structures lead people to behave in different ways. Now that you understand the kinds of choices that organizations face when they create their organizational structures, debate the following issues.

Team A. Today the hierarchy of authority is more important than mutual adjustment in coordinating and motivating people and functions to achieve an organization's goals.

Team B. Today mutual adjustment is more important than the hierarchy of authority in coordinating and motivating individuals and functions to achieve an organization's goals.

Experiential Exercise

Analyzing Organizational Structure

For this chapter you will analyze the structure of a real organization such as a department store, restaurant, hospital, fire station, or police department. In the next chapter, you will identify the contingencies that have influenced the development of the organization's culture.

Objective

Your objective is to gain experience in analyzing and diagnosing an organization.

Procedure

The class divides into groups of three to five people. Group members discuss the kind of organization the group will analyze and then explore the possibility of gaining access to the organization by using a personal contact or by calling and going to see the manager in charge of the organization. After the group gains access to the organization, each member of the group interviews one or more members of the organization. Use the questions that follow to develop an interview schedule to guide your interview of the organization's employees, but be sure to ask additional questions to probe more deeply into issues that you think are interesting and reveal how the organization's structure works.

After all of the groups complete the assignment, the instructor either will allocate class time for each group to make a presentation of its findings to the whole class or will request a written report.

1. Draw an organizational chart showing the major roles and functions in your organization.
2. What kind of structure does your organization use? Why does it use this structure? What are the advantages and disadvantages of this structure?
3. How does your organization integrate and coordinate its activities?
 - A. Describe the organization's hierarchy of authority. Is it tall or flat? Is it centralized or decentralized? How wide a span of control does the top manager have?
 - B. What integrating mechanisms does the organization use to coordinate its activities?
 - C. To what degree does the organization standardize its activities, and how does it do this?
4. Summarizing this information, would you say the organization operates with a mechanistic or organic structure? Are there elements of both?

Making the Connection

Find an example of an organization that has been changing its structure recently. What changes did the organization make, why did it make them, and what does it hope to achieve from them?

New York Times Cases in the News

The New York Times

Sony Music to Cut 1,000 Jobs in a Broad Restructuring Plan

BY LYNETTE HOLLOWAY

Sony Music Entertainment is making sweeping layoffs in the first reorganizational move by its new chairman and chief executive, Andrew Lack.

Mr. Lack, who succeeded Thomas D. Mottola about three months ago, plans to

eliminate 1,000 jobs in the United States and abroad as part of a broad cost-reduction plan that would try to cut expenses by more than \$100 million a year, people close to the company said yesterday.

They said that the plan was scheduled to take effect yesterday and today in New

York. The company hopes to complete its restructuring before the fiscal year of its parent company, the Sony Corporation, concludes at the end of the month.

The cuts include about 300 positions in the United States. The layoffs will affect people who work in distribution, manufacturing, administrative support

and corporate offices, and at Sony's two major record labels, Columbia Records and Epic Records.

The layoffs come as Mr. Lack seeks to restructure, streamline and leave an imprint on a company that was run for 14 years by Mr. Mottola, an industry giant. Mr. Mottola left under a pall after the music division experienced huge financial losses as its market share continued to shrink, at a time when CD sales in general had fallen. Mr. Lack, formerly the president and chief operating officer of NBC, was hired by Sir Howard Stringer, chief of the Sony Corporation of America, in the

hopes that he could help improve the division's finances.

"We are also combining some functions, most notably in sales and distribution, in order to minimize duplication of efforts and more efficiently serve the needs of our artists, employees and customers," Mr. Lack said in an undated memorandum to employees.

It is expected that Mr. Lack, in about two weeks, will announce management changes that will dismantle the structure of Mr. Mottola's longtime administration, but keep many of its players.

Donnie Jenner, chairman of Columbia Records, is expected to oversee the Sony

Music America division and both Columbia and Epic. Michele Anthony, executive vice president for Sony Music, who works closely with the labels, is expected to continue in her role. Will Botwin, president of Columbia Records, will continue to oversee the label and will report to Mr. Jenner. Polly Anthony, president of Epic Records, will continue to oversee Epic Records and will report to Mr. Jenner.

Sony is the third-largest music company in the nation, after BMG, which is owned by Bertelsmann, and Universal Music Group, which is owned by Vivendi Universal.

SOURCE: Lynette Holloway, "Sony Music to Cut 1,000 Jobs in a Broad Restructuring Plan," *New York Times*, March 28, 2003, p. C3.

Questions for Discussion

1. In what ways is Sony changing its structure?
2. How will these changes help to improve its effectiveness?

The New York Times

3M, Textron, and Lockheed Reorganize Their Structures

The 3M Company, the maker of products ranging from Post-it notes to medical inhalers, reorganized into seven businesses from six to give more focus to faster-growing markets. Three of the business divisions will be new: safety, security and protection services; display and graphics; and transportation. The health care; industrial, consumer and office; and electro and communications divisions will remain. E. James McNerney Jr., the chief executive, is managing 2,500 cost-cutting projects, borrowing from methods he learned during his 18 years at General Electric.

Textron Inc., a maker of airplanes, helicopters and other products, said yes-

terday that it would combine industrial components and industrial products areas to cut employment costs and speed decisions. Textron has been battling a downturn in its Cessna Aircraft business and said in April that it was stepping up plans to cut jobs and other costs to meet reduced profit forecasts. Combining the two segments to create a single industrial segment will eliminate two division president positions and lead to staff cuts of 40 to 50 people, a Textron spokeswoman, Susan Bishop, said. The chief operating officer, Steve Loranger, will become head of the combined unit and keep his other duties, Textron said. Textron is based in Providence, R.I.

The military contractor Lockheed Martin Corporation said yesterday that it would form a new business unit to focus on technology integration. Lockheed said the unit, called Integrated Systems and Solutions, would bring together specialists from its space, air and ground businesses to help design systems compatible with one another. Albert Smith, currently executive vice president at Lockheed's space systems business, will head the unit, which will employ about 11,000 and be based in Gaithersburg, Md. Lockheed, based in Bethesda, Md., said formation of the division, its fifth business unit, would not affect its previous forecasts.

SOURCE: "3M, Textron, and Lockheed Reorganize Their Structures," *New York Times*, September 28, 2002; June 7, 2003, p. C.4; June 28, 2003, p. C4.

Questions for Discussion

1. In what ways are these companies changing the design of their organizations?
 2. What benefits do they hope to obtain from their reorganization?
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Chapter 17

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