

8

Organizing: Designing Jobs, Departments, and the Overall Organization

Chapter Outline

- Introduction
- The Nature of Organizing
- The Process of Organizing: Job Design
- The Process of Organizing: Determining Authority Relationships
- The Process of Organizing: Organizational Structure
- Dimensions of Organizational Structure
- Determinants of Organizational Structure
- Coordinating Different Parts of the Organization
- Configurations of Structural Types

Learning Outcomes

After reading this chapter, you should be able to

- Discuss the nature of organizing.
- Assess the different approaches to grouping tasks into jobs and the advantages and disadvantages of each.
- Determine the relationships between authority, responsibility, and delegation.
- Describe the process of designing organizational structure.
- Describe the dimensions of organizational structure.
- Investigate the determinants of organizational structure.
- Describe the different types of coordinating mechanisms that can be used to support the organizational structure.
- Distinguish among five organizational archetypes: simple, machine bureaucracy, professional bureaucracy, divisionalized, and adhocracy.
- Critique a company's organizational structure.

Inside Management: Best Buy Designs Empowered Corporate Culture

Retailing takes place in a fast-paced environment, and Best Buy has achieved a great deal of success in that realm. Company leaders have created a culture in which employees feel empowered to contribute ideas. Through different approaches and organizational structures, employees have gotten involved in the company's innovation process and routinely contribute to its profitability.

Best Buy has adapted to many external and internal changes over its 40-year history. Under former CEO Richard Schulze, the company embraced a decentralized structure in which employees were given greater flexibility and the opportunity to engage in company operations.

Within this structure, management adopted an open-source work approach. This helped encourage employees to be dedicated to the company by giving them the ability to engage in projects that improved the company's products and operations. Inclusion of and responsiveness to its employees landed the company on the "World's Most Admired Companies" list in 2010.

An important part of the company's responsiveness to the environment has been its emphasis on diversity. Those at Best Buy believe that immersion and personalization are the best ways to educate managers about the need for diversity. One way the company enhances diversity is by improving its male-to-female employee ratios. In 2003 the company started WOLF, its Women's Leadership Forum, which aims to improve the experiences of both female employees and female customers. In only 4 years, Best Buy increased the number of female sales managers by 100%, female district managers by 200%, female employees working in home theater departments by 100%, and female Geek Squad employees by 284%. Those at Best Buy say that these methods for increasing diversity have helped the company create a more family-like atmosphere.

Best Buy also uses rewards and communication methods that encourage employees to take on additional roles in the company. For instance, at the Best Buy headquarters, members of one team involved with improving processes were rewarded for their efforts with a baseball game and desktop framed prints. Best Buy also holds quarterly town hall meetings. Prior to the meetings, employees are encouraged to submit questions or concerns, which are prioritized by Best Buy's communications team. This experience gives employees greater access to company leaders.



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Best Buy's corporate culture serves as a compass for employees, directing them on how they should represent the company.

(continued)

Inside Management: Best Buy Designs Empowered Corporate Culture *(continued)*

Amid declining sales and increasing competition, in 2012 CEO Hubert Joly was appointed to turn the company around. One of his strategies was to do away with a flexible work program that allowed employees to work from home. Although this was a controversial decision, Joly argued that bringing employees back to the office will renew and strengthen the organization's culture, especially during a time of change. Having everyone under the same roof again will increase accountability and give the company a sense of cohesion, which he feels are essential for continued success (Ferrell, Hirt, & Ferrell, 2009, 2014; Ferrell, Fraedrich, & Ferrell, 2013; Pride & Ferrell, 2010; Bhasin, 2013a, 2013b; Joly, 2013; Successories, 2016). In 2016 the company still struggled with intense competition, most notably from Amazon; however, market analysis indicated that Joly had emphasized a culture that promoted keeping costs low and employee expertise that could not be duplicated online, suggesting that the potential for future growth and stability remained (Gustafson, 2016).

Introduction

Almost any time two or more people get together to work on a project, it raises the issue of who should do what. Dividing work into parts, assigning these parts to individuals, and coordinating the activities of these individuals are organizing activities. Organizing work constitutes a major management function.

In this chapter, we examine the circumstances that dictate the form of organization that will be most suitable for any given organization. We also present the major approaches to organizing tasks into jobs and, in turn, jobs into departments. In presenting these major approaches, we discuss the strengths and weaknesses of each. Next, we examine the types of formal structures that organizations as a whole can adopt, as well as the informal structures that arise as a matter of practice. We then consider extenuating factors that affect an organization's choice of formal structure and the coordinating mechanisms that are useful in helping organization members stay in contact with other elements of the company. Finally, we consider some general types of organizations, such as bureaucracies, professional organizations, and small entrepreneurial organizations.

8.1 The Nature of Organizing

In Chapter 1 we defined an *organization* as a group of people working together to achieve goals or objectives that would be difficult or impossible to achieve individually. An organization provides a means of more easily performing the tasks that are essential for achieving an objective. Organizing is the process of assembling people and resources to create products and services. It consists of three important activities:

- Job design: assigning tasks to individual jobs
- Departmentalization: placing jobs into logical groups (departments)
- Structural arrangements: finalizing the organization’s overall design

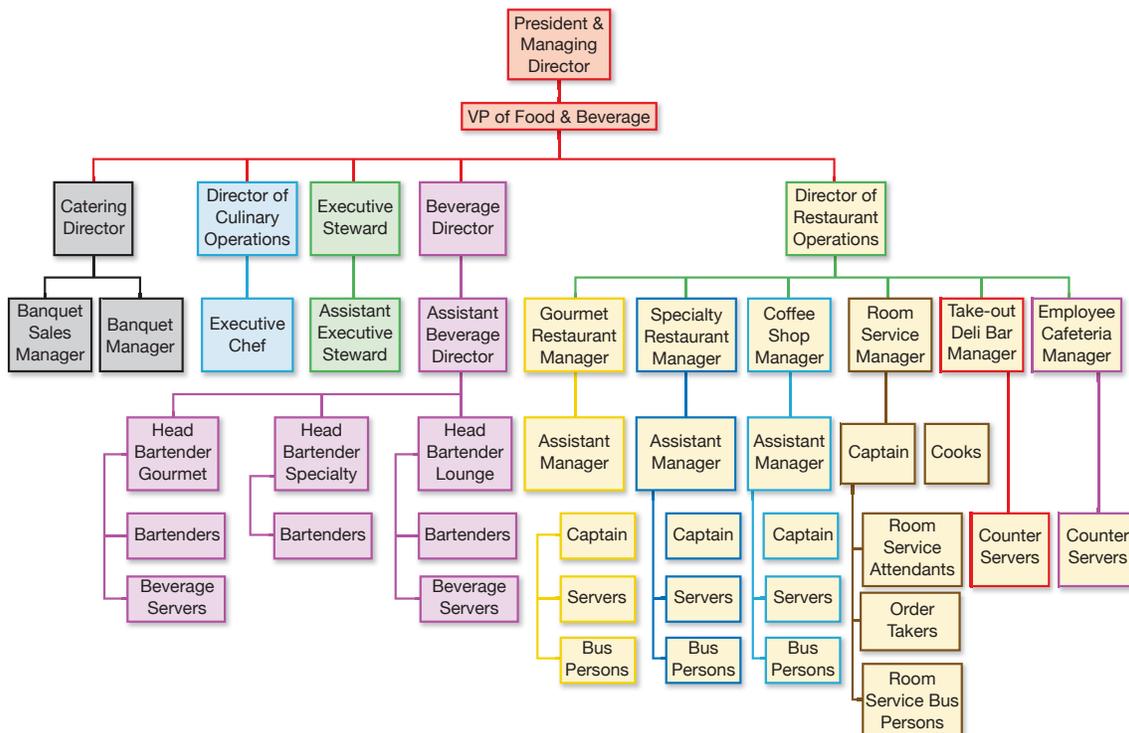
Organizing consists of the activities involved in designing an appropriate organizational structure, assigning employee duties, grouping sets of similar jobs together, and specifying authority–responsibility relationships among people and tasks. Organizing addresses important questions such as: Who reports to whom? How are tasks linked together? Who is responsible for completing tasks? Who coordinates this group of people? What are the shared values and beliefs of the company?

Formal Organizational Relationships

An **organizational chart** such as the one shown in Figure 8.1 provides a graphic display of the official lines of authority and communication within the organization. The organizational chart displays the structure of the **formal organization**, which is the arrangement of positions that dictates where work activities are completed, where decisions should be made, and the flow of information. **Authority** is the right to give work orders to others and to make certain decisions. It is associated with a position within an organization, not with the individual who occupies that position.

Figure 8.1: An organization chart

An organization chart depicts formal organizational relationships.



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The boxes in Figure 8.1 represent positions in the organization, in this case the food and beverage division of a large hotel. The solid lines between boxes at different levels represent lines of authority and formal communication. Horizontal lines denote communication channels between positions that are at the same authority level. The higher the level of the box in the chart, the more authority that position holds. Managers at higher levels give work orders to positions at lower levels if they are connected by direct lines. Vertical lines portray the communication channels that connect persons of higher rank with those of lower rank.

According to the organizational chart for the food and beverage division, the president and managing director of the hotel and the vice president for food and beverage occupy the two highest positions. The vice president has direct authority over the directors of catering, culinary operations, stewards, and beverage and restaurant operations. These five positions share information as indicated by the horizontal line. In addition, these five directors have authority over one to six manager-type positions who report to each one of them. Notice that the titles of these managerial-type positions range from manager to steward. In all five operations, the positions are equivalent in terms of level of duties. The managers who are connected on the chart by horizontal lines—the six restaurant managers, for example—share information and decision making. These six units are the gourmet restaurant, the specialty restaurant, coffee shop, room service, takeout and deli bar, and employee cafeteria. Four of these have assistant managers.

Informal Relationships

The **informal organization** consists of relationships among positions not connected by the organizational chart. These relationships occur either because the nature of the work forces the people occupying those positions to interact to complete their work more efficiently, or because they are friends. The informal organization signals communication and decision making among positions without denoting organizational authority. As such, it is created by the employees to better accomplish their jobs.

Communication and interaction can constitute positive contributions of the informal organization. Unfortunately, some negative effects may also emerge. In times of crisis or threat from external factors, the informal organization communicates information about the seriousness of the crisis and possible organizational responses. Such information might not be accurate, particularly when it is based on incomplete or old data or is based on rumors. Furthermore, the people in the informal organization may not always hold the same goals and values as the formal organization and may even work in opposition to it. Informal relationships are part of every firm and should be attended to by management. That is, the effect of the informal organization's communication on work outcomes should be noted and directly addressed if incorrect information is being transmitted.

8.2 The Process of Organizing: Job Design

The organization process involves several activities: grouping tasks into jobs, grouping jobs into departments, and determining authority and channels of communication. There is no single best way to organize.

A **job** is a set of tasks performed by one worker. **Job design** is the process of grouping sets of tasks into jobs. In the job design process, the manager decides how many tasks to include in a job and the complexity of those tasks. In general, as more tasks are included and their complexity increases, the job becomes more difficult to learn and perform, and fewer workers have the necessary skills to perform it successfully. Two schools of job design include *classical job design* and *behavioral job design*.

Classical Job Design

Classical job design is based on the assumption that increasing job specialization and division of labor increases an organization's overall productivity, as was noted by Frederick W. Taylor, Henri Fayol, and Max Weber (and described in Chapter 2). **Job specialization** is the division of work into smaller, distinct tasks. Division of labor results from assigning these distinct tasks to different workers.

In his book *An Inquiry Into the Nature and Causes of the Wealth of Nations*, philosopher and economist Adam Smith (1811) showed how, even in manufacturing something as simple as a pin, it was more efficient to divide the work into specialized tasks. One individual doing all the work could, at best, make a few pins a day. If the labor was divided, however, 10 workers could produce 48,000 pins in a single day (Smith, 1811). Henry Ford applied the concepts of division of labor and specialization when he developed the assembly line for automobile production. The assembly line delivered the product so that each production worker did not have to waste time moving to the product. The worker stayed in a defined space that contained all the tools and materials necessary to complete the tasks.

When jobs are divided, they are reduced in complexity until the activities of a single worker can be repeated with ease. This approach to job design was the hallmark of the Industrial Revolution and became the basis for the development of our modern production-based society. For that reason, the design of jobs based on the principles of division of labor and specialization is referred to as the **classical approach to job design**.

Advantages of Specialization

Specialization of labor offers a number of advantages. Workers can develop and use unique skills and knowledge. Instead of having to know all the details of a large operation, a single individual has to master only a small part. Work becomes more efficient, and costs are reduced. Employees quickly learn how to perform tasks, thereby reducing training costs. Moreover, worker can more easily improve their skills over time, allowing them to become experts in their areas. In addition, a large labor pool is available because many people can perform simple jobs. According to the law of supply and demand, a large labor pool lowers the wages paid to workers, which is an advantage to corporations. Finally, specialized equipment can be useful in a few situations: First, larger markets result in larger amounts of products being sold, and the size of the market justifies the expense of developing machines. Second, dividing work activities into specialized tasks defines specific work operations for machines to carry out.

Disadvantages of Specialization

Management experts and researchers have learned that specialization can have some detrimental effects on the worker and the company. Although task repetition can be an advantage from the organization's point of view, from the worker's perspective, performing the exact same task over and over is boring. This affects quality when workers find it hard to concentrate and fail to notice variances from the standards used to indicate poor-quality goods. Workers often combat the monotony associated with their jobs by being absent or tardy and by not paying full attention to the task, which can cause accidents. An extreme reaction to monotony is industrial sabotage, in which a worker deliberately damages material or equipment. Also, repetitive movements can result in fatigue injuries—for example, carpal tunnel syndrome.

Another major disadvantage of specialization arises from one of its advantages. Job specialization essentially reduces work to its lowest common denominator, allowing the employer extreme flexibility in moving people around the factory floor because training costs are relatively low. This often results in insecurity for the worker, who can be easily replaced. The rise of labor unions can be traced, in part, to the fact that job specialization allowed managers to replace workers fairly quickly and relatively inexpensively.

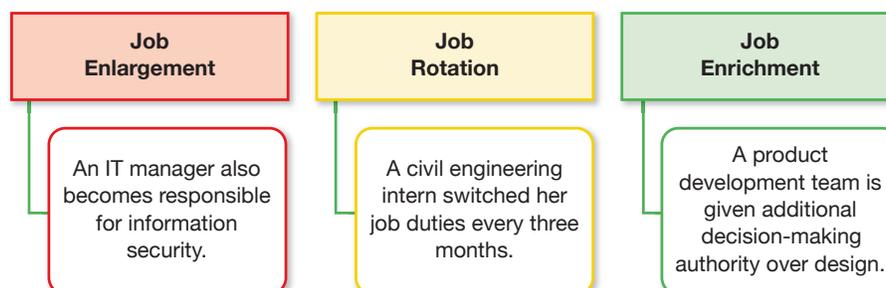
The Behavioral Approach to Job Design

As the limitations to specialization became more apparent, managers and researchers looked for new approaches to job design. The idea was that if a job could be made more compatible with an increasingly educated and trained workforce, the negative effects could be avoided. Whereas the classical approach to job design thought of the worker as a part of the production process—much like machinery—the **behavioral approach to job design** views workers as independent parts of the production process whose individual characteristics should be taken into account. This new focus noted the needs of individuals who wish to be engaged in work that is more complex, more challenging, and less repetitive than what resulted from classical job design. Behaviorists believe that when these needs are met, workers are more efficient and motivated.

Several approaches to grouping tasks into jobs have been developed under the behavioral approach, including job enlargement, job rotation, and job enrichment. These approaches seek to decrease employee dissatisfaction, instill workers with a sense of accomplishment, and increase motivation. Figure 8.2 provides examples of the three major approaches.

Figure 8.2: The behavioral approach to job design

The behavioral approach seeks to improve employee satisfaction and motivation.



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Job Enlargement

Job enlargement increases the number of tasks that constitute a job in order to create more challenging and stimulating work. For instance, instead of merely answering the phone, a receptionist sends e-mails, composes correspondence, sorts mail, greets and directs visitors, and keeps track of scheduling and meetings. Over the years, many organizations have implemented job enlargement. Although doing so has occasionally led to anticipated improvements in worker attitudes and performance, the result has not been consistently positive. To a large part, this is because the additional tasks change the overall characteristics of the job only minimally. The worker completes a larger variety of tasks, but all of them are about the same in terms of complexity and challenge. In essence, the employee performs more of the same kind of activities. Job enlargement has achieved some success in increasing employee motivation.

Job Rotation

Another behavioral job design approach, **job rotation**, involves moving workers to various jobs on a consistent, scheduled basis. For instance, a warehouse worker may run a forklift for 3 months, check inventory the next 3 months, and load trucks for 6 months. This method still contains the key elements of the classical approach: the jobs consist of a few, specialized tasks. The only addition is that workers are rotated through several positions. From the organization's perspective, this is easy to implement because the jobs are both simplified and easy for new workers to learn.

This approach has not been consistently successful in reducing the negative effects of specialization and division of labor. Presently, it is used to cross-train work teams that require all members to be able to perform all the jobs of a work unit. The members of such work teams can successfully cover for one another during absences or work together when equipment breakdowns slow a particular production step. It may also reduce the number of accidents, because the workers at least engage in new tasks from time to time, which may reduce some complacency and inattentiveness.

Job Enrichment

Through **job enrichment**, jobs are designed to increase the number of similar tasks included and, more important, the number of tasks that require information processing and decision making. Many team-building programs may also be regarded as job enrichment programs because they increase the complexity of the team's work. The general results of job enrichment programs have been positive, although some evidence suggests that not all workers respond well to them. This approach intends to increase the complexity, decision making, and responsibility of the job, and workers differ greatly in their needs for these components in their work life. Clearly, those who have a high need respond more favorably to job enrichment programs. By giving employees more challenges and responsibilities, job enrichment can increase an employee's sense of accomplishment and overall satisfaction with the job. Hyatt Hotels Corporation and General Foods use job enrichment to improve the quality of work life for employees. The benefits of job enrichment can be significant, but the effort requires careful planning.

Business Dilemma

What Would You Do?

Suppose you are a business consultant. In your role, you work with clients to help them develop strategies, define plans, and solve problems. Consider the following client's case. Use your knowledge of this chapter's core concepts to address the questions presented at the end of the case. Possible answers to these questions are included at the end of the chapter.

THE CLIENT: John Suede, president of KBJ Beef Processing Equipment

THE PLACE: Casper, Wyoming

KBJ Beef Processing is one of the largest livestock equipment manufacturers in the United States. With the decrease in beef consumption over the past 10 years, the company has remained successful because of a redesigned organizational structure. Originally, KBJ operated with nine layers of management, which were reduced to three with the arrival of a new president, John Suede. The standing joke with employees when they learned of Suede's name and his reorganization plans was "Suede's going to turn our business inside out."

Suede's reorganization utilized teams to accomplish tasks within the organization. The company established work teams and trained them to set their own production goals and schedules, communicate with the appropriate departments and levels, evaluate and report profitability, evaluate performance, address hiring needs, and determine raises. The autonomous, empowered work teams have proved to be one of the most successful strategies that Suede implemented.

KBJ also introduced flexible work schedules for its employees, allowing them to come in earlier or later as their individual needs warranted. The flexible schedules demonstrate KBJ's vote of confidence in its employees. Suede monitored the system during the first year after implementation and found abuse to be minimal. Employees want to be on the job, working in groups they enjoy and enhancing the company's performance.

The reorganization has also given managers great opportunity because each position in the organization can be held for no more than 1½ years. Even those employees who do not enter management positions are still compensated extremely well and given opportunities to rotate jobs and cross-train. Also, the company has made a concerted effort to eliminate jobs that it does not consider intrinsically satisfying within the corporate structure. Secretarial positions, for example, were eliminated, and all employees are now responsible for processing their own work, a step that required some computer training for a small number of the employees.

Employees like the new system and gain a far greater appreciation of their productivity through the comprehensive cost-output assessments they perform. Suede makes all financial summaries available on the computers that each work group has in its station.

(continued)

Business Dilemma *(continued)*

Everyone knows exactly how the company is performing; employees work hard and are rewarded for doing so. Employee surveys indicate that employees especially like the ability to solve problems on their own. Before, with all the layers of management and hierarchical reporting relationships, nothing was solved, settled, or fixed very quickly.

KBJ's new structure has allowed it to restore profitability and increase employee motivation and productivity in an increasingly pressured industry.

Questions

1. What is the significance of reducing the layers of KBJ's management?
2. Evaluate the team approach implemented at KBJ versus the approach in existence when Suede became president. What caused Suede to implement the new structure?
3. Why is it key to have employees be responsible for most aspects of their job in the team setting? What is the role of communication?

8.3 The Process of Organizing: Determining Authority Relationships

Another activity involved in organizing is determining authority relationships among employees. Authority relationships usually flow down an organizational chart, from high positions such as president and vice president to the lower levels of the organization. For this reason, this organizing activity is sometimes known as *vertical*, or *scalar*, *organization*. Higher ranking managers direct the work of lower level employees. For small companies, the manager can accomplish this by frequently interacting with the relatively small group of workers. As the organization matures and expands, however, this close contact is no longer possible. At that point departments begin to form. At the same time, organizational leaders must still coordinate and direct the activities of all employees. Therefore, all organizations create authority and reporting relationships to specifically identify positions that serve to direct and coordinate the activities of other positions.

Authority and Responsibility

Authority is the legitimate use of power—that is, using power in areas deemed appropriate by the organization. When an organization grants a member authority, it expects something in return. Authority always carries with it the burden of responsibility. **Responsibility** means being held accountable for attaining the organization's goals.

French management theorist Henri Fayol (1949) wrote that authority must accompany responsibility. No one in an organization can be expected to be responsible for something over which he or she has no authority. For example, if workers on the assembly line are held responsible for their tools, then they need the authority to lock the tools up—they need power over or control of the tools. If a grocery store clerk is responsible for the accuracy of the till, then others in the organization cannot be given authority to use it, even when the store becomes busy.



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For police officers, authority includes enforcing the law, and responsibility includes maintaining a safe and civil society.

Balancing Authority and Responsibility

A key issue in management is how to divide the authority among members of the organization or department. Top managers cannot be directly involved in all decisions. There simply is not enough time, nor can any one individual know enough to do so. Therefore, decision making and authority must be spread throughout the members of the organization. Two major methods of distributing authority include *delegation* and *decentralization*.

Delegation

Delegation, or empowerment, is the assignment of work activities and authority by someone of higher rank to an employee at a lower level or to a work group. Delegation by a middle-level manager to a first-line supervisor, for example, can lead to increased efficiency. It can speed the process of work operations by lowering the demands on any one individual manager and therefore reduce delays in processing information, making decisions, and communicating decisions to others.

Delegation should not be construed as a tactic to relieve managers of the responsibility for whether these work activities are performed well. A manager can only delegate work activities, not abdicate his or her responsibilities. Therefore, it is in the manager's best interest to treat the delegation process as an important part of his or her job, one that requires careful attention and systematic review.

Essentially, delegation resembles a contract between persons in which a manager and a subordinate create an exchange of work activities and authority. The process benefits everyone involved. The manager enjoys relief from some of the daily activities necessary for getting a part of his or her work done. The employee often gets a chance to develop new skills and master additional tasks that will be assets in future career development. The organization benefits because the work process may be completed more efficiently and another employee gains experience with higher level work assignments.

Table 8.1 lists some basic issues to address in delegation. The manager assigns the work tasks to the subordinate with specific goals stated. Next, the manager grants authority to the individual and communicates this to him or her. The individual must accept responsibility for the task by agreeing to be accountable. Even though the employee has control over the job activities, the two parties should meet frequently in order to keep the manager informed and to ensure the employee has all relevant information. At this point, the manager has struck a new contract with the employee. However, this contract characterizes only the working relationship between the two people involved.

Delegation does not change an organizational chart or formal authority relationships. The manager remains ultimately responsible for the accomplishment of the delegated tasks. This is because it is possible to delegate authority, but not responsibility. Consequently, the manager will need to evaluate and control the employee's action.

Table 8.1: Requirements for effective delegation and empowerment

- Include a complete set of work tasks—either a whole job or a definite part of a job.
- Set goals—the subordinate(s) should participate in developing definite end results that should be achieved.
- Include authority with responsibility—inform the subordinate and others that the subordinate has the right to make decisions for specific work activities.
- Provide information—subordinates must receive all data relevant to newly assigned job tasks.
- Communicate frequently—the subordinate should inform the manager of work on assigned job tasks. This is to provide the manager with necessary information, not to ask for direction.

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Despite the potentially favorable outcomes associated with delegation, it may not always be used, possibly due to reluctance on the part of the manager or the subordinate. A manager may fear loss of control and not wish to be responsible for anything not done personally. Many individuals, especially if new to the position, are reluctant to accept delegated tasks because they fear making a mistake and suffering the resulting negative outcomes.

Decentralization

An important question in the distribution of authority is to what extent authority should be spread across the organization. That is, should just a few positions be given authority, or many? **Centralization** is the pattern of concentrating authority in a relatively few high-level positions. Managers in these positions make almost all decisions. Many factory environments are centralized. Conversely, **decentralization** takes place when authority is dispersed to several positions at various levels in the organization. Zappos has a decentralized structure where employees are empowered to make decisions and develop solutions. Many large successful firms such as GE and IBM feature more decentralized structures due to the benefits involved.

Decentralization can be viewed as formalized delegation in the organization. Instead of a personal working relationship between manager and subordinate, decentralization represents the organization's systematic plan to spread authority. With decentralization, information and decisions are processed more quickly because there are fewer levels of employees involved. Also, more individuals receive training in how to make and implement managerial-type decisions.

Most organizations are neither completely centralized nor decentralized. In some firms, most decision making is centralized, with the exception of one or two departments that may have a great deal of decentralization such as quality control and customer service. In other organizations, only certain functions are centralized, such as manufacturing.

The degree to which a firm will decentralize or centralize depends on a number of factors. Generally, if an organization's environment is highly dynamic, a decentralized approach may be better. It allows the firm to transmit information more quickly to those who make decisions, because there are fewer levels of management to go through to reach the appropriate decision maker. Green Mountain Coffee has a flat organizational structure, which has contributed to the company's success. The structure promotes open communication and commitment among employees, who have access to all levels of management, even the CEO.

On the other hand, the degree of risk and the cost attached to a decision may affect a firm's position. Organizations tend to be more centralized when they are involved in decisions with high risk/high cost alternatives. A third factor is the skill and ability of the organization's managers. Decentralization requires that managers be competent in the areas in which they are asked to assume authority. For this reason, decentralization is often accompanied by planned management development and training programs.

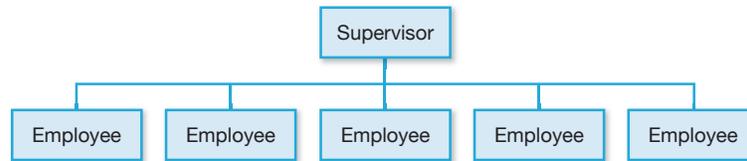
Span of Control/Management

The **span of control** or *span of management* is the actual number of subordinates over which a position has authority. A broad span of control means that a manager supervises several subordinates (typically more than 10); a narrow span of control means that she or he supervises only a few (as few as 2 or 3). Span of control is one of the older management concepts that can be traced back to the early part of the 20th century. Essentially, early theorists thought that a manager should never control more than a certain number of employees, normally 5 or 6 subordinates for higher level managers and as many as 30 for lower level managers. A basic assumption of such thought was that any one individual is limited in terms of available time and the amount of information that he or she can process. More subordinates mean more time demands and more information to process. When all subordinates perform essentially the same job, as is the case with many lower level managers, then more subordinates can be managed. Figure 8.3 demonstrates some of the differences between a broad and narrow span of control.

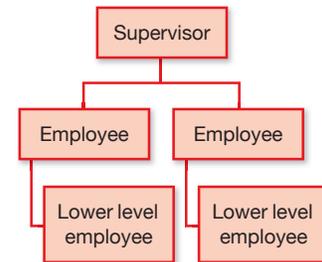
Figure 8.3: Span of control/management

Span of control has implications for leader style and levels of effectiveness.

Broad Span of Control



Narrow Span of Control



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Many management experts believe that the span of control should be determined by the particular circumstances. Factors such as the complexities of employee jobs, the availability of information systems to keep track of performance data, the physical proximity of the workers, whether the task is self-directed, the level of worker expertise, the prevalence of standard operating procedures, and the frequency of unpredictable problems should be addressed before determining the number of people whom a manager can effectively manage. In situations in which the work is relatively simple, we would expect that a broader span may be appropriate. In scenarios in which the workers are geographically dispersed, such as convenience store managers in a region, a narrow span may be the preferred choice.

The span of control may also be influenced by managerial styles. A person who manages by forging close personal relationships would probably do better with a narrow span of control. On the other hand, a person who predominantly pays attention only to performance data and intervenes with subordinates only when performance is low could operate with a broader span of control. Digital communication also affects the span of control in many organizations. This practice usually adds many subordinates to the span of control because the telecommuting employee and the supervisor have fewer interactions and the computer system keeps records of the employee's performance.

The number of subordinates directed by each position affects the organization's overall structure. When narrow spans of control are needed in an organization, there usually must be more managers, and thus more levels of management. The structure associated with a narrow span is usually referred to as a *tall organization*, while the structure associated with the broad span is referred to as a *flat organization*.

Chain of Command

Chain of command is an organizing concept that ensures all positions are directly linked in some way to top management. Such linkage means that all employees are coordinated in terms of work activities. The organizational chart depicts the chain of command. Two types include *unity of command* and a *scalar chain*.

Unity of command is the principle that a subordinate should report to only one immediate superior. Early practicing managers argued that if an employee reports to more than one boss, conflicting orders may be given. In addition, it will be difficult to convey organizational goals effectively.

Scalar chain is the principle of organizing whereby authority should flow through the organization from the top down, one level at a time. This principle is concerned primarily with the need for precise information to be transmitted through the firm. If Sally skips her immediate subordinate, Rob, and talks directly to Rob's superior, Mel, about a work-related topic, Rob will miss information that may affect both immediate and future work activities of his group.

8.4 The Process of Organizing: Organizational Structure

An **organizational structure** results when managers group jobs into departments and/or departments into divisions. **Departmentalization** means grouping related jobs to form an administrative unit—department, area, or center. Departmentalization is closely linked to organizational structure. It helps coordinate the jobs in an organization, and coordinating departments is easier than coordinating each job separately.

Departmentalization constitutes a normal stage in an organization's growth. Typically, a firm starts small, and the entrepreneur can exert a large amount of control over all aspects of operations. As the firm's product lines and geographic base expand, the owner finds it increasingly difficult to coordinate the many facets of the growing firm and usually forms departments to maintain control. This grouping should not be conducted in a haphazard, disorderly manner. Departmentalization should have its basis in what the firm is trying to accomplish. Departments are formed to reflect logical groups of similar jobs (such as production, accounting, sales, and quality control) that should be linked so the organization can more easily reach its objectives.

Managers structure organizations in several ways. Departmentalization is one method. A *line structure* is the simplest form of organizational structure and occurs when authority moves from manager down to the lowest level employee. In small organizations, that may be sufficient. In larger organizations, however, departments may proliferate until there are too many to manage. In this case departments are clustered together, much as jobs are clustered together, to form divisions. Departments and divisions can occur as functional, customer, product, and geographic structures; however, some organizations will not have divisions, only departments. Others contain many divisions, giving them a multidivisional form. Other forms of structure include the matrix and the network versions. The following sections describe the different ways that organizations can decide how to group departments into larger units, either divisions or projects.

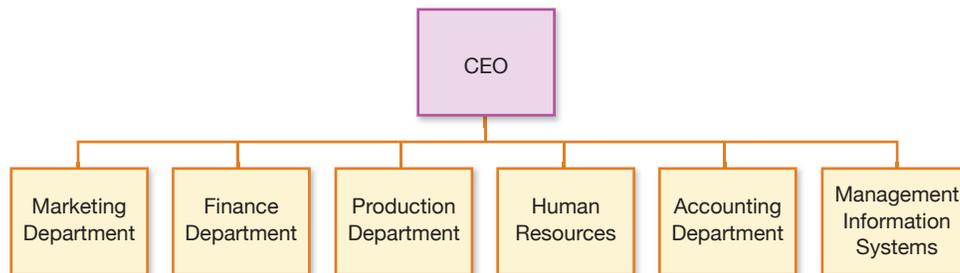
Functional Structure

A relatively small company often groups jobs into departments with a rudimentary form of structure known as a functional, or line-and-staff, structure. A **functional structure** groups jobs according to similar activities, such as accounting, production/operations, research and

development, and marketing. It is the most common form of organizational structure because it matches smaller, single-product or single-service firms. Pier 1 Imports, for example, makes use of a functional structure by grouping its functions into specific areas, including finance and administration, merchandising, stores, planning and allocations, and human resources. See Figure 8.4 for an example of functional structure.

Figure 8.4: Functional structure

The functional form of structure serves smaller, single-product or single-service organizations.



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Multidivisional Structure

A **multidivisional structure** groups departments together into larger segments called divisions. At the extreme, Procter & Gamble serves as example of a large multinational company with many different divisions, ranging from home and health care to medical devices. This structure is usually appropriate when a firm grows so large that functional departments become cumbersome. Growing companies often diversify, which can strain a functional structure and make communication complicated and difficult (Child, 1984). When the weaknesses of the functional structure—"turf wars," miscommunication, and working at cross-purposes—exceed the benefits, growing firms tend to restructure into divisions. Just as departments might be created on the basis of geography, customer, product, or a combination (hybrid), divisions can be based on any of these forms (see Figure 8.5).

Figure 8.5: Multidivisional structure

A multidivisional structure groups departments together into larger segments called divisions.



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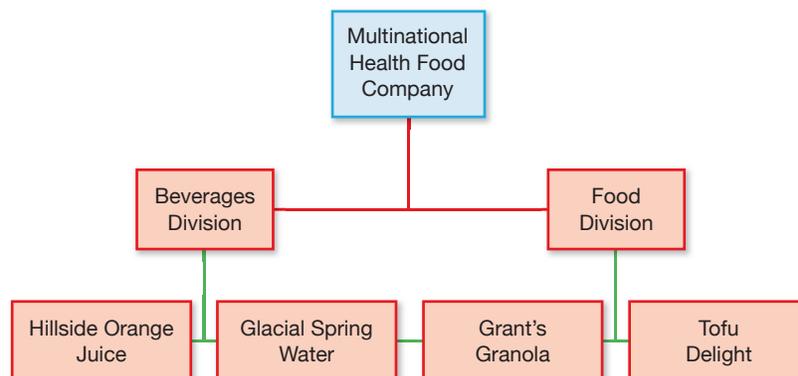
Product Divisions

When a company uses its different products as the basis for divisions, it employs a **product division structure** (see Figure 8.6). Growing companies that add products and/or services to current lines often find the product division form of structure to be helpful. For example, when Amazon moved away from being an order-fulfillment center to offering a physical product, the Kindle, moving to a product-based form of structure helped keep the activities separate and allowed managers to concentrate on the type of business they directed.

The product form also can be useful in larger companies. PepsiCo, for example, has product divisions for soft drinks, snack foods, and noncarbonated beverages. The product division structure works well when the firm's goods or services are specialized and require specific expertise for their manufacture and sale. It permits the organizational leaders to concentrate on products rather than job specializations. Some pharmaceutical companies, for example, use product structure to focus on particular illnesses and group employees into product divisions to develop drugs to address these diseases.

Figure 8.6: Product divisional structure

Growing companies that add products and/or services to current lines often find the product division form of structure to be helpful.



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Geographic Divisions

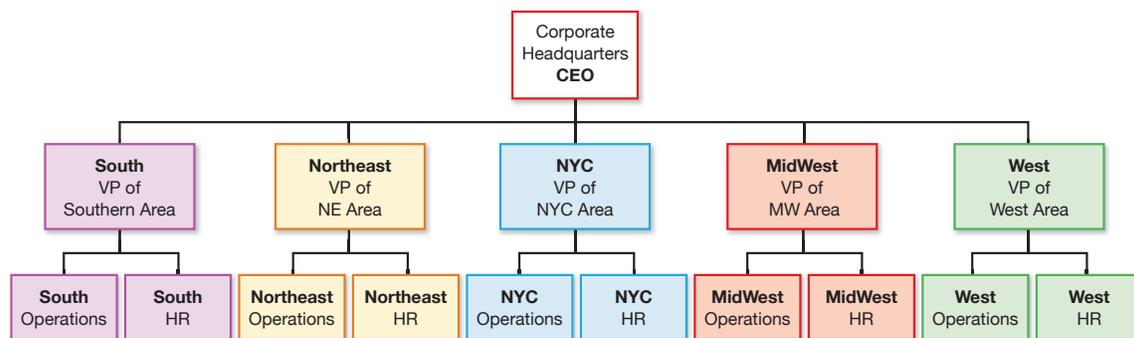
A firm with a **geographic division structure** creates divisions to support business operations in certain geographic regions. Larger companies that offer the same products or provide the same services may find geographic departmentalization to be of value. For example, multinational corporations often use the geographic division structure based on differences in various parts of the world. By clustering into one division those people, tasks, jobs, and departments that serve a particular geographic region, the company can address the specific characteristics of the region in the design, production, and marketing of the goods and services it plans to sell there. Retail chains, for example, would largely utilize the same job titles but at the same time have some regional differences. Winter clothing would be quite different for a Sears store in Minnesota or Alaska as compared to Florida or Southern California. Such

a structure permits those in the division to concentrate on the characteristics of the region rather than having their attention divided by the competing demands of providing products in a variety of widely different geographic areas.

Typically, when a multinational firm uses a geographic divisional structure, the divisional headquarters of the region are located in that region, rather than in the United States. So, for example, a company with Asian, European, and African divisions may have head offices located in Tokyo, Paris, and Johannesburg. Furthermore, the majority of employees at these locations are likely to be regional citizens rather than Americans. This increases the likelihood of success in developing, manufacturing, and marketing products suited to the consumers of the region. Failing to accommodate the needs of a different country can have consequences ranging from product failure in that area to catastrophic events that threaten the health of the firm (see Figure 8.7). General Motors and Caterpillar tend to be organized by region.

Figure 8.7: Geographic divisional structure

Larger companies that offer the same products or provide the same services may find geographic departmentalization to be of value.



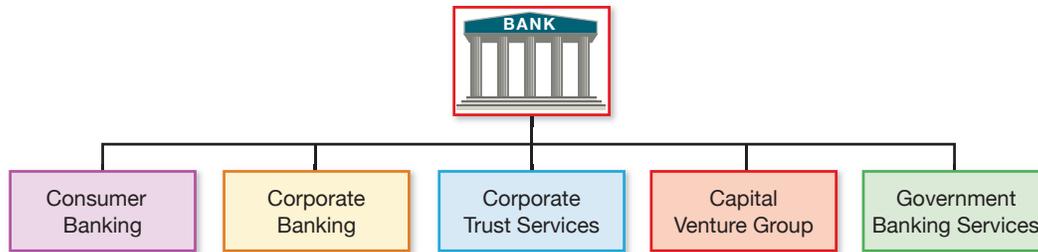
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Customer Divisions

Another organizational form is the **customer division structure**. Some companies may have one division for products for the private sector and another division for the public sector. Banks such as Wells Fargo frequently organize into divisions to provide services to large commercial clients, small commercial clients, and individual accounts such as personal checking or savings (see Figure 8.8).

Figure 8.8: Customer divisional structure

Customer divisional structures match companies that sell the same or similar products to different types of customers.



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Holding Companies

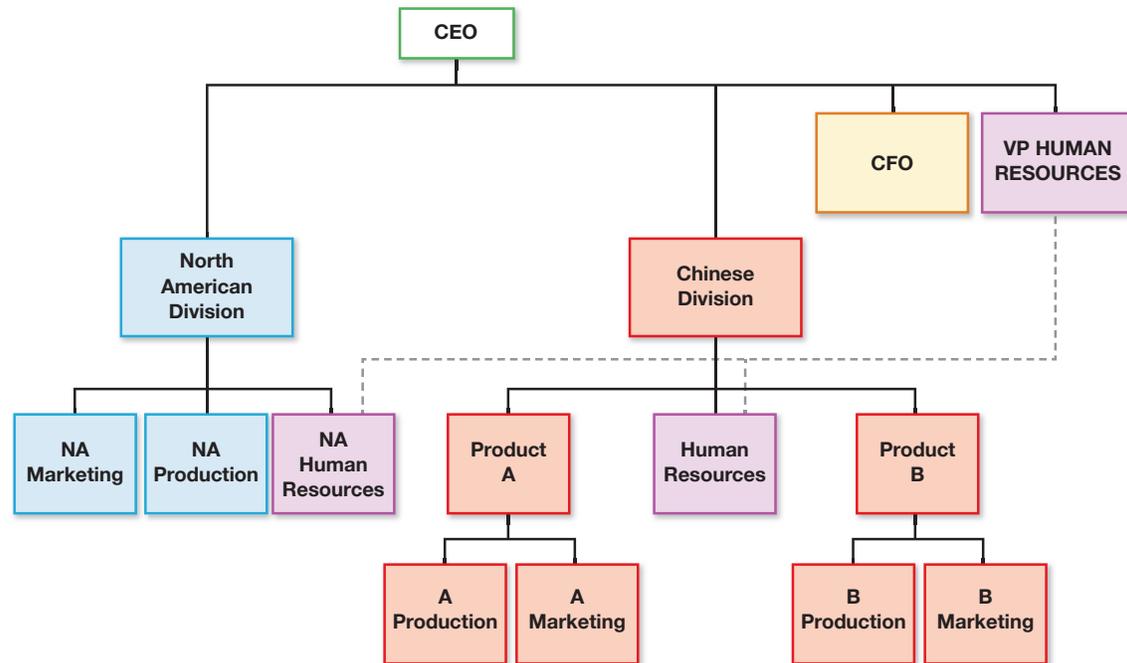
A **holding company** describes an organization composed of several very different kinds of businesses, each of which is largely permitted to operate autonomously (Rumelt, 1986). Warren Buffett's Berkshire Hathaway can be characterized as a conglomerate holding company. Under the Berkshire Hathaway umbrella are diverse companies including insurance, railroads, and jewelry. A corporation that has diversified into a variety of unrelated businesses is known as a conglomerate. Each of the conglomerate's businesses (divisions) is operated independently because the knowledge and expertise needed to run one business may not apply to a different business—and might even be harmful. In this structure, the parent corporation is largely a coordinating office with few personnel; it usually tells each division what its profit contribution is expected to be, and each division has the freedom to meet those expectations as it sees fit. What is important in this structure is that each business be managed without the interference of the parent firm.

Hybrid Structure

A **hybrid structure** is the combination of several different structures. Divisional hybrids are the most common form of organization structure. Hybrid structures can be any combination of multidivisional, functional, or holding company forms. The organization's environment, strategy, size, and primary technology all determine the best combination of structural forms for its purposes (see Figure 8.9).

Figure 8.9: Hybrid structure

Hybrid structures can be any combination of multidivisional, functional, or holding company forms.



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Advantages and Disadvantages of a Multidivisional Structure

A multidivisional structure permits delegation of decision-making authority, relieving top management of the overwhelming burden of having to know everything about everything. It also allows those closest to the action to make the decisions that will affect them. Finally, it tends to promote loyalty and commitment among those lower level members of the organization who are making important organizational decisions. These benefits lead to other advantages. Delegation of authority and divisionalized work mean that decisions can be made faster and are more likely to be high quality. The work tends to be more innovative and creative. By focusing each division's attention on a common denominator (geography, product, or customer), each becomes more likely to provide goods or services that are more closely aligned with the needs of its particular geographic area or customer.

The disadvantages of multidivisional forms are that top managers may feel they are losing power or even control of their company when they delegate decision making to others. This fear may cause top management to centralize decision making that, in effect, eliminates some of the benefits of the multidivisional structure (Jones & Hill, 1988). In addition, the divisional structure inevitably duplicates work, which makes it more difficult to realize the economies of scale that result from grouping all functions together.

For example, when each division has its own accounting department, the corporation probably employs more accountants than a centralized accounting department would require. Furthermore, a multidivisional organization may complicate consolidating the books because

each division is likely to have its own unique accounting practices, some of which may be difficult to reconcile. Finally, such a structure allows each division some degree of latitude to “play” with the accounting figures, perhaps hiding some important, but negative, information from top management. This happened at AIG when its Financial Products division began to take excessive and expensive risks that nearly brought down the entire company and resulted in AIG receiving hundreds of billions in bailout money from the government.

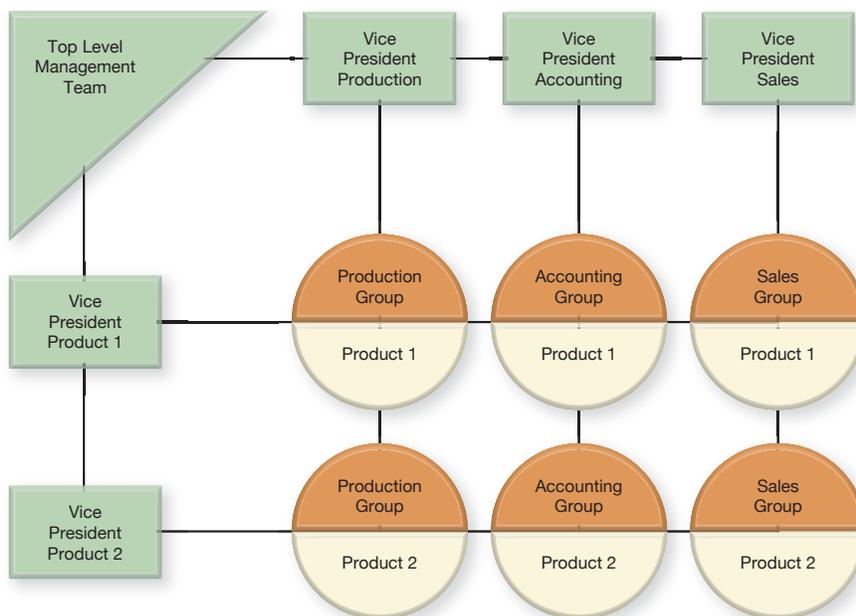
Matrix Structure

A **matrix structure**, also known as the *two-boss system*, attempts to capture the benefits of both the functional and multidivisional forms (David & Lawrence, 1977; Galbraith, 1973). The National Aeronautics and Space Administration was one of the first organizations to use a matrix structure.

Figure 8.10 displays a matrix form in which each employee works for a functional area supervisor and a product manager. At the top of the figure, three functional first-line supervisors lead the areas of production, accounting, and sales. Employees directly below perform those functions. The supervisors on the right-hand side of the figure are responsible for individual products (1) and (2). A production worker has a functional manager (production supervisor) and reports to a product manager (product 1). In the next row, production workers respond to the same production supervisor but to the manager for product 2. The same is true for the sales force: Each salesperson responds to the sales manager but also to his or her product manager.

Figure 8.10: Matrix structure

A matrix structure, also known as the two-boss system, attempts to capture the benefits of both the functional and multidivisional forms.



Source: Organizational Behavior, by D. Baack, 2012, San Diego, CA: Bridgepoint Education.

Matrix is the structure of choice for special projects. Matrix structures permit people who do similar functional work such as accounting, computer programming, or drafting to work together, but they also allow a subgroup of these specialists to work intensely together on a specific assignment. Further, matrix organizations create circumstances that maximize flexibility and adaptability. Workers are expected to adapt to differing products and product managers. The only constant is the employee's functional supervisor.

A variation on the matrix organization is to design the company by product and by country. Products must often be adapted by country, due to differences in electrical systems (AC versus DC) and in measurements (such as yards versus meters). Product managers are asked to identify national differences and help adapt production systems, marketing programs, and other activities to the new nations. In this form of a matrix organization, the functional managers remain the same. Instead of product managers, they oversee activities in various countries. Each employee reports to a functional supervisor and a national supervisor.

The primary weakness of the matrix structure is that each team member reports to two bosses—the functional boss and the project boss. This can create ambiguity and confusion and lead to conflicting demands being placed on team members. If not managed carefully, matrix structures can create more chaos than order.

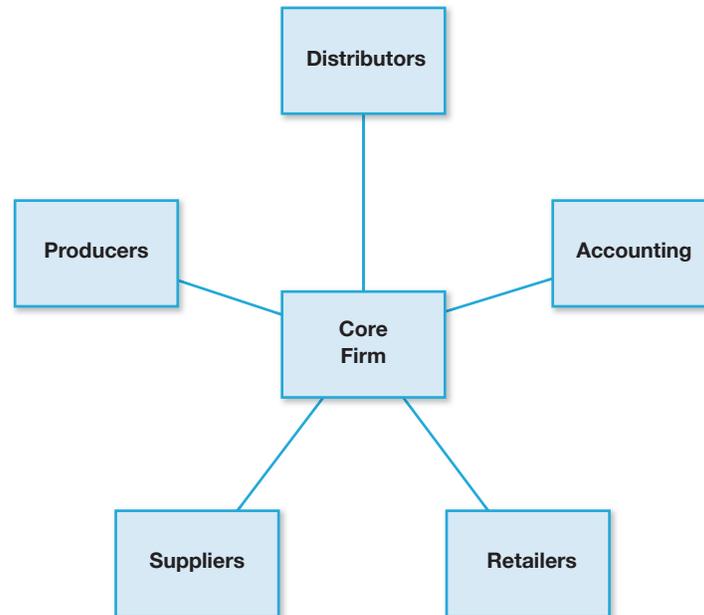
Network Organizations

The structural forms described above have been in use in the United States for some time. Some (functional structures) have been used in one form or another for centuries. But the world constantly changes, and new organizational forms are often needed to meet the challenges of a new environment. In his book *Thriving on Chaos*, Tom Peters (1988) argues that the current organizational structures most favored by large corporations stifle the ability to compete effectively. He proposes that radical new structures are needed to address the opportunities generated by the global economy (Peters, 1988). These structures are not characterized by traditional boundaries but are instead fluid and adaptable.

One new form that has arisen in recent years involves the development of a network. A **network organization**, also known as a *hollow structure*, is primarily a command unit. It does not make a good or provide a service but instead coordinates agreements and contracts with other organizations to produce, distribute, and sell products (Miles & Snow, 1986). This is much like contract manufacturing. There is a core component of the organization, but most of the work is contracted to others. Oil and gas companies often use this type of structure. Network organizations call on others to do the functional tasks involved in manufacturing and selling (see Figure 8.11).

Figure 8.11: Network structure

A network organization helps meet the challenges of a new environment.



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Team Structures and Virtual Organizations

Two emerging forms of organizational structure include the team structure and the virtual organization. **Team structures** feature groups of employees who are used to determine ways to allocate tasks and assign responsibilities (Stewart & Barrick, 2000). W. L. Gore and Associates uses a team-based organizational structure of multidiscipline teams to complete projects. The technology firm does not have the organizational charts or chains of command found in most organizations (Gore, 2016).

In a **virtual organization**, organization members in different geographic areas use information technology to collaborate on projects and objectives. For example, the Wikimedia Foundation is virtual in nature; it is well known for operating *Wikipedia* and is made up of contributors from around the world (Marcin & Wojciech, n.d.). These organizations have few physical assets, and once the project is finished, organization members part ways (“The Virtual Organisation,” 2009). It is not uncommon for companies to create temporary virtual organizational structures to take advantage of a core competency or concern (Marcin & Wojciech, n.d.). For instance, a large company such as Procter & Gamble may develop a team of product developers from different areas of the country to collaborate on new product ideas. After the team meets its goals, the structure may be dissolved.

Management Insights: Creating a Corporate Culture ... Virtually

It seems unlikely that businesses would encourage employees to engage in social networking, but clients of Yammer do just that. Yammer supplies internal social networking for organizations. These internal networks provide many benefits. For example, Yammer enables global employees to communicate easily in real time, cutting down significantly on e-mail.

Yammer CEO David Sacks says employees using his service more easily develop relationships and a sense of commitment to their companies—a claim bolstered by research. Although the networks are designed for conducting business, employees often share jokes, light banter, and personal information. Many companies also use Yammer and the equivalent to track ideas in a streamlined fashion, from conception through production and beyond.

Despite advantages, internal social networking has pitfalls. Disadvantages primarily affect employees, who may be too free with their comments. Anything posted on an internal social network is potentially admissible during performance reviews, promotion decisions, and legal proceedings.

With social media changing individuals' everyday interactions, Yammer has made an exceptional impact with its ability to organize a whole company on one network. Most companies operate in a fast-paced environment, and Yammer pledged to create a private social network for such firms to enable productive and successful collaboration among employees. Yammer has become one of the fastest growing enterprise software companies in history and is used by more than 200,000 companies worldwide. Companies that have adopted this virtual corporate culture include Ford, Orbitz Worldwide, Nationwide, and 7-Eleven, among many others. Yammer's network allows a company to self-organize and accomplish projects and tasks efficiently. Its growth potential convinced Microsoft to purchase the company for \$1.2 billion in 2012.

At the same time, companies have realized the necessity to take precautions to prevent employee misconduct. Businesses have found it is essential to implement user guidelines to ensure employees are not misusing the software. For instance, the technology company Xerox states that employees should use discretion, professionalism, and common sense. With gentle guidance, Yammer and other internal digital networks can enhance corporate culture and the workplace experience. As social networking continues to grow, it's likely the internal version will thrive as well (Vance, 2011; Brogan, 2011; *Xero Blog*, 2011; Chacos, 2012).

8.5 Dimensions of Organizational Structure

Until now, we have described the formal ways in which an organization can be structured. Organizational charts display authority–responsibility relationships and the managerial hierarchy. As such, the organizational chart depicts the organization's formal structure, but it does not necessarily reveal who makes the important decisions, how specialized are its jobs, or how rigid are its rules. Other features of organizational structure explain these activities. Among them, the degree of centralization/decentralization, the level of complexity, the

degree of formalization, the use of tall versus flat hierarchies, and the presence of mechanistic or organization processes constitute additional dimensions of organizational structure.

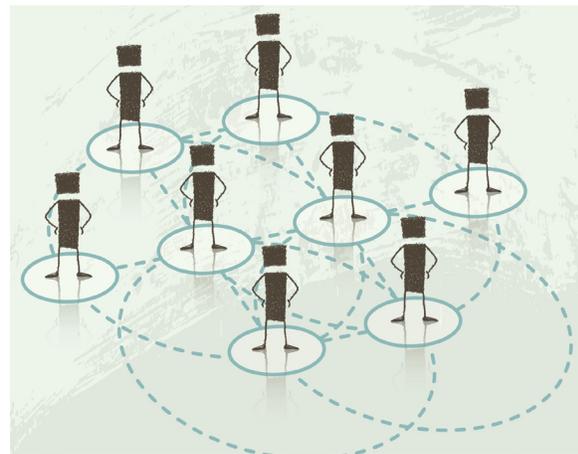
Centralization, Complexity, and Formalization

As noted earlier, *centralization/decentralization* refers to the concentration of authority. When decision-making authority is held by a few individuals in high-level positions, the organization is centralized. On the other hand, when decisions are made by the people confronted with the problem, regardless of their position in the hierarchy, the organization is decentralized.

Complexity refers to the degree of differentiation and specialization that exists between structural units. A company with a high degree of differentiation is one in which departments perform increasingly unique activities. For example, when Amazon began selling the Kindle, the degree of differentiation increased dramatically from mere order fulfillment to a completely new activity: the development and sale of a physical product. Specialization indicates the uniqueness of job tasks. In larger companies the accounting department would employ individuals who focus on costs (cost accountants), budgets (budgetary accountants), and accounts receivable and payable accountants. Complexity increases when tasks and jobs vary widely in terms of duties, when the organization is geographically dispersed, and when the firm has many vertical levels in its hierarchy. Firms with high degrees of division of labor as well as multinational corporations exhibit heightened levels of complexity.

Formalization refers to the number of organizational procedures and rules along with the degree to which these are written down and enforced. A company that rigidly adheres to the chain of command and has a two-volume personnel handbook that details every moment of every employee's work life would be considered a highly formalized organization.

Centralization, complexity, and formalization together describe the impact of the organization's structure (Robbins, 1990; Dalton, Todor, Spendolini, Fielding, & Porter, 1980; Miller & Dröge, 1986). Often, centralized organizations are also highly formalized and complex. American Express is an example of an organization with these three elements. It is a very large company with extensive division of labor and many hierarchical levels (high complexity). The firm relies on clear rules and procedures and tries to reduce the demands on executive time by enforcing things such as the chain of command (high formalization). Furthermore, such an organization is likely to want to preserve decision-making authority for those in command (centralization) to prevent all the disparate elements from running off in opposing directions. Complex organizations may also be formal and centralized. Indeed, some complex organizations are both informal and fairly decentralized.



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A trend in organizational design is to decentralize authority to give lower level employees more autonomy to make decisions and develop solutions.

Tall and Flat Organizations

Another way to classify the organization in terms of hierarchy of authority is via organizational layers. An organization with many layers of management is known as *tall*, and the span of management within this organizational structure will likely be smaller. This means that each manager supervises a smaller number of subordinates; hence, many levels of management carry out business activities. Tall organizations rely on higher level managers for decision making, and communication usually takes longer to filter through the organization.

Organizations with few layers are known as *flat* organizations and have wide spans of management. Managers become more likely to supervise a larger number of employees and perform more duties. Decentralized companies often have this type of structure. In this scenario, individual managers may have more freedom to make decisions, and middle management positions do not exist. Flat organizations disperse decision making and have fewer levels of management. For example, Whole Foods retailers tend to have flatter organizations, as teams of employees make many major decisions. Green Mountain Coffee also has a flat organizational structure, which has contributed to the company's success. The structure promotes open communication and commitment among employees, who have access to all levels of management, even the CEO.

Mechanistic and Organic Structures

Mechanistic organizations are highly formalized, complex, and often centralized. Mechanistic organizations are characterized as having a large number of specific rules and work procedures that guide every aspect of employee jobs; tall organizational structures with many levels or ranks and fewer people per rank (smaller spans of control); formal relationships between workers and supervisors (who are not on a first-name basis); and a highly defined hierarchy of authority in which each employee knows who is in charge and who holds authority.

Often, mechanistic organizations can be bogged down by rules and procedures; however, some employees prefer such environments because everything is clearly spelled out and well understood. Organizational responses to challenges and problems are often slower in mechanistic organizations. Many manufacturing operations tend to be mechanistic, most notably when low levels of competition and change are present in the environment. Some business observers argued that the mechanistic structure at General Motors nearly caused the demise of the organization in the early 2000s, because it was slow to react to global competition and changes in consumer preferences for vehicles (energy efficiency and sport utility).

Organic organizations are less formal, fairly simple, and more likely to be decentralized (Burns & Stalker, 1961). Organic organizations are more ambiguous, make decisions quickly, and experience rapid change; some people will find them uncomfortable places to work because the rules are not clearly known or understood. On the other hand, management can more quickly react to new circumstances, even at lower levels in the organization. Netflix is an example of an organic organization that was able to adapt from movie rentals into television show production and content delivery via online streaming. Management was able to quickly adapt to the entertainment industry's changing environment.

The mechanistic and organic forms constitute ends of a continuum, and most organizations fall somewhere in between. They can be decentralized but very formal. They can be simple but highly centralized. Organizations also change over time. For many years, the U.S. military was often put forth as an example of a highly mechanistic organization; slow to change, with rigid sets of rules and procedures. In today's world, however, military leaders recognize the need to become more flexible and adaptable, and many would argue that these organizations have become much more organic as a result.

8.6 Determinants of Organizational Structure

Many things can affect an organization's choice of appropriate structure. We consider five such factors in this section: an organization's size, life cycle, strategy, environment, and technology.

Organization Size

When an organization is small—such as a single retail store, a two-person consulting firm, or a restaurant—its structure can be simple. In fact, if the organization is small enough, there may not be a structural configuration or organization chart (Child, 1972, 1984). An example would be a two-person consulting firm. The two individuals may split the work based on their individual abilities and skill sets.

As an organization grows, it becomes increasingly difficult to manage without more formal work assignments and some delegation of authority. Thus, companies usually initially adopt a functional structure. As the firm grows and diversifies, the weaknesses of the functional structure become more apparent, and management might move to a multidivisional structure (Chandler, 1962). Large organizations such as Fortune 500 companies employ more complicated structures, including hybrids, networks, and in some cases, a matrix form. Consequently, the size of the organization often dictates the structural forms that will be in place.

Sociologist Peter Blau and his colleagues (1971) noticed a strong relationship between an organization's size and its degree of decentralization. Smaller firms will often be centralized; managers direct all activities and are familiar with every employee. As a firm grows, the company begins to add specialists and new departments. The sheer volume of decisions to be made increases. The top manager cannot control everything and begins to delegate in response to the challenges presented by increasing size. At the same time, the top manager wants to retain a degree of control, which leads to standardization, formalization, and mechanization or computerization. *Standardization* features a series of jobs that are exactly the same. *Formalization*, as we noted, refers to the presence of rules and procedures. *Mechanization* or computerization suggests increased reliance on technology, especially computers, to maintain operations (Blau & Schoenherr, 1971).

Life Cycles of Organizations

As organizations age, they tend to progress through stages that are together known as a life cycle. As we noted in Chapter 6, a product or organization's life cycle consists of four stages: introduction/birth, growth, maturity, and decline. Each stage has implications for the structure of the firm (Miller & Friesen, 1984).

Birth

In the birth phase, a founder or entrepreneur starts a business. Organizations in the birth stage do not typically require formal structures. There is usually a high degree of centralization but a low degree of formalization and complexity. The founding entrepreneur usually calls all the shots and does not delegate authority.

Growth

In the growth stage, sales rise along with the number of employees and the complexity of the organization. Facebook and Twitter are examples of companies in the growth phase. They enjoy large untapped potential markets and are seeking ways to grow. They have become large enough to create a more formal structure, usually functionally organized departments. This permits some delegation of authority and an increase in formalization.

Maturity

Once a firm has reached the maturity phase, a variety of new possibilities emerge. Some organizations stay in a single business and increasingly rely on standardization, formalization, and mechanization to maintain control. Others add new products and services (the strategy of diversification). These firms become more likely to decentralize, due to the increased level of complexity. They often evolve into multidivisional forms of structure.

Decline

An organization in decline begins to experience lower sales and perhaps a smaller market share. The tendency toward efficiency that characterized the maturity phase may turn into stagnation. Decline, however, is not an inevitable stage. Firms experiencing decline may, in fact, institute the changes necessary to extend the life cycle through some form of innovation. At that point, some companies resort to highly centralized forms of control and depend on a dynamic leader to help find ways to survive. Others decentralize and seek other alternatives, including internationalization, new product development, or ways to increase use of current products. Arm & Hammer baking soda, for example, is now added to toothpaste and carpet cleaning products, and the company has also developed new products sold around the world for cleaning stainless steel pots and pans.

Strategy

Strategic thinking involves deciding how the organization is going to position itself in the marketplace. There are two possible approaches: Company leaders may decide to always be the first on the market with the newest and the best product (a differentiation strategy), or they may instead choose to produce the same product more efficiently and cost-effectively (a cost-leadership strategy). Each strategy requires whichever structure will help the organization achieve its objective of either innovation or cost efficiency. Companies that employ the cost-leadership strategy generally find a functional structure to be most appropriate. Efficiencies are most likely to result from job specialization and low task variability. Product innovation, on the other hand, requires a more flexible structure and greater coordination among organization members. This is achieved with more complex structures, such as the multidivisional or even matrix structures.

In 1962 Alfred Chandler suggested that organization structure resulted from company strategies. Chandler's historical research revealed that organizational structure is often a managerial choice that evolves over time. His in-depth review of case histories of 50 major U.S. companies, including General Motors, Standard Oil of New Jersey (Exxon), and DuPont, revealed four stages of structural development that were consistently present (see Table 8.2; Chandler, 1962).

Table 8.2: Strategy and structure

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

Source: The Five Functions of Effective Management, by D. Baack, M. Reilly, & C. Minnick, 2014, San Diego, CA: Bridgepoint Education.

The strategy of diversification occurs after companies grow by producing a single product. The functional form works well until then; however, as companies diversify, coordination problems arise. The fourth stage indicates a change in structure as a response; one that best fits the company's new reality.

Environment

The external environment has many stakeholders, and managers must respond to their expectations. When a large market for the organization's products exists and the funds needed to continue operations are readily available, the organization operates in a **munificent environment**. This is one that is favorable to the business, often due to growing demand and other

advantages, such as barriers to entry that keep other companies from competing with the organization. Also, munificence grows when stakeholder groups are satisfied or pleased with the organization's performance (Dess & Beard, 1984; Wholey & Brittain, 1989). An example of a munificent environment is the video-game industry, which enjoys a high and growing demand for products, as was made clear with the rapid growth of persons enjoying the Pokémon Go game in 2016. Capital remains readily available to companies in the industry.

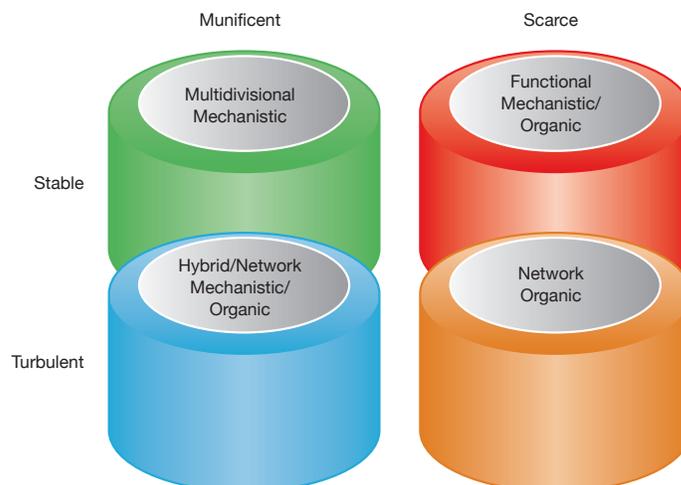
If the opposite is true—money is tight, the market is stagnant or declining, or stakeholder groups are making conflicting and difficult demands—then the organization is operating in a **scarce environment**—also known as a hostile environment. SeaWorld faced such an environment in 2015 and 2016 when groups critical of its treatment of sea animals publicly voiced their concerns, which became even more pronounced with the release of the documentary *Blackfish*.

Similarly, if stakeholder demands, and specifically customer desires, are well understood and relatively stable over time, the organization is operating in a **stable environment** (Bourgeois, 1985; Cameron, Kim, & Whetten, 1987; Dess & Beard, 1984). An example of a stable environment is the machine tool industry. Although subject to economic fluctuations, it is sensitive to little else. If customer or other stakeholder demands are continuously changing or the primary technology of the company is constantly being improved and updated, then a company finds itself in a **turbulent environment**. An example of a turbulent environment is the smartphone industry. Not only is the technology constantly changing, but so are consumer preferences.

Organizations deal with environments that are more or less munificent (or scarce) and more or less turbulent (or stable). These features occur along a continuum and together influence the types of organizational structures that might be effective. As shown in Figure 8.12, these features can be depicted as a two-by-two matrix.

Figure 8.12: Environmental characteristics

Organizations deal with environments that are more or less munificent (or scarce) and more or less turbulent (or stable).



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When the environment is scarce (few resources) but stable, a company must use its resources efficiently. The stable market means that the company probably does not have to respond quickly to changes. In such an environment, a functional structure may be appropriate, as it is the most efficient and should be effective in an environment where market demands are well understood.

When the environment is both turbulent (rapidly changing) and scarce (few resources), then an organization may need a network structure or may make heavy use of outsourcing. In such an environment, the organization faces many changing demands and few resources with which to respond to them. Therefore, the organization must be both flexible and efficient. Network structures permit organizations to be both. They are flexible because it is faster to negotiate new contracts that entail new specifications with new suppliers than it is to retool a factory. They are efficient because those best equipped to do the work are doing it; the organization does the one thing it does best, and the rest is done by contract providers. An example is Dell Technologies in Austin, Texas. The computer industry is both very turbulent and relatively scarce or hostile. Dell's management team responds to these challenges by operating largely as a network. The company buys computer components from a variety of vendors and puts them together in configurations that match customer specifications. This structure permits Dell to be flexible and rapidly respond to new technological advances.

When the environment is munificent (many resources) and stable (few changes), the organization is likely to use a multidivisional or hybrid structure. The presence of abundant resources makes it more likely that the company will become taller because it can afford to have many layers. It needs neither to conserve resources nor worry about rapidly changing market conditions.

When the environment is munificent (many resources) but turbulent (rapidly changing), the company may use a hybrid or matrix structure. If there are sufficient resources, the organization may easily absorb the costs of a matrix (ambiguity), but the form will provide it with the flexibility needed to respond to rapidly changing market requirements.

Technology

Three basic levels of technology may be found in production processes, and each influences an organization's structure. The levels include small-batch technology, mass technology, or continuous technology.

In **small-batch technology**, the firm produces small numbers of goods in response to specific customer requests. Many defense contractors use small-batch production, as their contracts may specify a small number of missiles, satellites, or planes. Another example is *haute couture* fashion, where small numbers of designer dresses are produced.

Firms using **mass technology** produce large numbers of the same product. A typical mass-production operation employs an assembly line, in which the product travels down a conveyor belt while employees perform specific tasks at various stations. Many products—from cars to computers to furniture—are produced this way.

In **continuous technology**, raw materials flow continuously through a system that transforms them into finished products. For example, oil refineries use continuous production to transform oil (raw material) into gasoline.

British researcher Joan Woodward first identified these three technology types. She noted the importance of an organization's structure being consistent with its type of technology. She found that both small-batch and continuous-process technologies achieved higher performance when used in organizations with an organic form of structure.

Work is customized and specialized in small-batch firms; consequently, the specialists engaged in operations need to make the decisions about the work they are doing, which leads to an organic form of structure. In continuous-production companies, tasks are complex and problems are best handled at their source. It is necessary to have freedom in decision making, and doing so makes the organic form more viable. Mass-production technology is most successful in firms with mechanistic structures. Mass production employs standardized technology that uses well-known procedures, which allows for formal routines and centralized decision making (Woodward, 1965).

8.7 Coordinating Different Parts of the Organization

Managers intending to design or redesign an organization make several decisions. They consider the strengths and weaknesses of the formal structural choices facing them, as well as the organization's size, life cycle, strategy, environment, and technology. They also note alternatives, including centralization versus decentralization, complexity, standardization, formalization, and mechanization. In short, managers coordinate many different elements to derive an efficient and effective organizational structure.

Individual structural elements might create internal conflicts. Fortunately, managers have a variety of tools they can use to help them coordinate such a complicated entity as an organization.

Coordination links jobs, departments, and divisions so that all parts of the organization work together to achieve goals. Coordination is critical to all organizations. It must be formalized and ingrained into the structure of large organizations. In small businesses, on the other hand, coordination can frequently be directed by the owner/manager of the business, who is in charge of all activities.

Coordination can be divided into two types. **Vertical coordination** is the integration of succeeding levels of the organization. An example would be using divisions to coordinate departments. **Horizontal coordination** describes linking subunits on the same level—for instance, coordinating between the marketing and legal departments.

Coordinating Mechanisms

Managers have developed a number of ways to help coordinate aspects of the organization, both vertically and horizontally. The goal is to link those people who must interact in the

work process. For example, it is important that product development personnel talk to sales personnel so the salespeople do not find that they have been trying to sell a product that cannot be adapted or produced. The major agents of coordination include rules and procedures, committees, task forces, and liaison personnel.

Rules and Procedures

A major coordination question that often confronts managers is one of priority. Rules and procedures address priority issues. Thus, in a hospital, standard operating procedures dictate that using ambulances to transport severely injured people to hospitals for emergency treatment takes precedence over letting the radiology department use ambulances to transfer patients to another hospital that has specialized testing equipment. Rules and procedures are usually intended to address situations that commonly occur in work operations. The organization cannot develop rules that will cover every possible situation, of course. Codes of conduct or ethics help establish principles and procedures that allow employees to know how to act when ethical decisions arise. The degree to which a company attempts to document every rule and procedure is the degree to which the organization is formalized.

Committees

Committees are formal, permanent groups of people brought together to monitor and keep track of ongoing situations. They usually address nonroutine work situations that cannot be covered by rules and procedures. For example, corporate boards of directors usually have permanent committees on executive compensation, employee benefits, and capital expenditures. Committee membership may change over time, but the purpose of the committee remains fairly stable.

Task Forces

A *task force* is a temporary group of employees responsible for bringing about particular change. Task force members are usually chosen for their expertise in specific areas. Task forces will be discussed in greater detail in Chapter 13.

Liaison Personnel

Liaison personnel coordinate the efforts of different people in the organization. A systems analyst, for example, might ensure that those who will eventually use a computer system communicate effectively with the system's designers and programmers. Liaison roles usually serve to enhance communication. A liaison can "speak the language" of a variety of different job specializations and thus act as translator when specialists need to communicate with one another.

How Coordinating Mechanisms Work

Each of these coordinating mechanisms works by bringing together people from different parts and levels of the organization to solve a problem or accomplish a task that requires the

cooperation of a diverse group. Such mechanisms are useful in correcting weaknesses in a particular organizational structure. In a company with a formalized, centralized functional structure, for example, management may feel that certain products are not changing as fast as consumer preferences. Such a structure lacks flexibility, making rapid change difficult. Thus, management may choose to create product teams, where specialists are brought together to manage the product. This would introduce some flexibility into an otherwise inflexible organization.

8.8 Configurations of Structural Types

By examining many successful organizations, researchers have found that companies tend to organize using one of five general archetypes (Mintzberg, 1979). Although in reality there are an infinite number of ways a company can structure itself, this amazing variety tends to cluster into five general types: the simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy (Mintzberg, 1979, 1993). Table 8.3 provides examples of these structural types.

Table 8.3: Structural types

Type of structure	Description	Example
Simple structure	<ul style="list-style-type: none"> Few departments Arranged by function Common in small organizations 	<ul style="list-style-type: none"> A start-up company hires employees A business owner hires an administrative assistant
Machine bureaucracy	<ul style="list-style-type: none"> Formal and highly structured Emphasis on rules and procedures Functional structure Highly routinized 	<ul style="list-style-type: none"> A Honda car manufacturing facility Housekeeping at the Marriott
Professional bureaucracy	<ul style="list-style-type: none"> Functional structure Best in stable environments Consists of mostly professionals Provides nonroutine services 	<ul style="list-style-type: none"> Princeton University Health and social service centers Baker & McKenzie law firm
Divisionalized form	<ul style="list-style-type: none"> Departments separated into autonomous divisions Decentralized structure Multidivisional or hybrid structure Common in large organizations 	<ul style="list-style-type: none"> Procter & Gamble Walmart PepsiCo
Adhocracy	<ul style="list-style-type: none"> Decentralized and informal Operates in highly turbulent environment Delegation of authority is common 	<ul style="list-style-type: none"> Google Federal Emergency Management Agency

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Simple Structure

A **simple structure** has few departments, is arranged by function, and is headed by an entrepreneur/owner with few technical support staff. A small, young (early in the life cycle), entrepreneurial organization is most likely to have a simple structure. The firm has little need for job specialization or formalization. If there are enough people to have a formal structure, it will be functional.

Machine Bureaucracy

A **machine bureaucracy** is a highly structured, formal organization that emphasizes procedures and rules. The formal structure is functional, accompanied by complexity, formalization, and centralization. The machine bureaucracy is a classic mechanistic organization, where everything is done “by the book.” It is of medium size, its environment is stable, and its favored technology is mass assembly. American car companies prior to the 1970s were classic machine bureaucracies.

Professional Bureaucracy

The **professional bureaucracy** is like the machine bureaucracy but with some differences. Like the machine bureaucracy, it has a functional structure, is medium sized, and works best in stable environments. It differs from the machine bureaucracy in that most of its employees are professionals and it provides nonroutine services. The structure tends to be decentralized, which allows those closest to the work to make the necessary decisions. Examples of professional bureaucracies include large law firms, medium-sized accounting firms, universities, and group medical practices.

Divisionalized Form

The **divisionalized form** is essentially the multidivisional structure or a hybrid. It is typically a very large corporation that has organized its departments into divisions. The organizational structure, however, tends to be decentralized, allowing managers in each division to make the decisions needed for it to effectively operate. The level of formality and complexity may vary from division to division depending on the circumstances faced. Each division faces its own product market or geographic region, and the level of environmental turbulence/stability and munificence/scarcity varies from division to division. Individual divisions are often responsible for the production of goods or services, and the technology can also vary substantially from one division to the next.

Adhocracy

An **adhocracy** is a decentralized, informal, but complex organization that tries to maintain flexibility in the face of rapid environmental changes by using a matrix or network formal structure. It is a medium-sized firm that operates in a highly turbulent environment that requires flexibility and ease of change. To accomplish this, the organization tends to delegate

authority and does not overload itself with rules and procedures. Such firms are usually involved in complex, state-of-the-art technology and are pursuing new product strategies. Examples of adhocracies include many pharmaceutical firms, those doing business in the electronics industry, and often hospitals.

How Best to Structure the Organization

Although organizations tend to fall into one of the five archetypes of structure just described, in reality the structures used are unique to each and every company. There are so many factors that a company must account for and so many alternate methods it may use in order to become more efficient and effective that no two companies ever share exactly the same structure.

Furthermore, new structural forms are being tried all the time. It is usually true that when a company is not doing as well as expected, the first thing management does in an effort to improve performance is to change the organization's structure—to reorganize. So companies do not choose a structure and then stick with it forever. In fact, organizational structures change almost continually, always evolving to meet the needs of changing strategies, technologies, environments, and phases of the life cycle. To remain vital and profitable, a company must be adaptable enough to meet new or changing circumstances.

Summary and Review

- *Discuss the nature of organizing.* An organization is a group of individuals working together to achieve goals or objectives that would be difficult or impossible for them to achieve individually. Organizing consists of job design, departmentalization, and finalizing the company's structure.
- *Assess the different approaches to grouping tasks into jobs and the advantages and disadvantages of each.* Tasks can be grouped into jobs using either the classical approach to job design or the behavioral approach to job design. The classical approach stresses making a job very simple by including a small number of tasks. The behavioral approach takes into account the worker's psychological makeup by attempting to increase the number of tasks in the job and enhance a worker's interest in the job.
- *Determine the relationships between authority, responsibility, and delegation.* Authority is the right to give work orders to others in the organization. Responsibility refers to the accountability an individual or group has when attaining goals. Delegation involves assigning work activities and authority to a subordinate. Although the manager delegates work activities and the authority to complete them to a subordinate, the manager remains responsible for the subordinate's performance and the completion of work.
- *Define decentralization and describe what strengths it has for employee development.* Decentralization is the pattern of distributing authority beyond the top positions to various levels of the organization. Decentralization frees managers from some tasks, provides an opportunity for employees to develop new skills and master additional

- tasks (such as making managerial-type decisions), and accelerates information processing and decision making because fewer levels of employees are involved.
- *Describe the process of designing organizational structure.* Departmentalization means grouping related jobs to form an administrative unit—a department, area, or center. Organizational structure is the result of creating an organization and reflects the ways managers group jobs into departments and departments into divisions. A functional structure is divided by basic work groups such as accounting and sales. In a multidivisional structure, the organization groups all the activities involved with a specific product, geographic region, customer, or another common denominator together into a division. A matrix structure brings together employees from different functional areas to act as a team in order to complete a specific project.
 - *Describe the dimensions of organizational structure.* The dimensions include the degree of complexity, formalization, and centralization. Complexity refers to the degree of job specialization, vertical levels in the organization, and the diversity of tasks in which the organization is involved. Formalization is the degree to which the company makes use of written rules and procedures. Centralization describes an organization in which the entire decision-making process is completed in the higher echelons of the organization.
 - *Investigate the determinants of organizational structure.* Which structure is best for an organization depends on its size, strategy, environment, and technology. The larger the organization, the more complex its structure tends to become. Different types of strategy are more effectively implemented with different structures. Different structures also respond in different ways to varying levels of environmental munificence/scarcity and turbulence/stability. The more scarce and/or turbulent the organization's environment, the more organic the organization structure should become. Technology also affects the type of structure an organization should use.
 - *Describe the different types of coordinating mechanisms that can be used to support the organization structure.* Coordinating mechanisms are tools that can be used to help reduce the disadvantages of any given organizational structure design choice. Task forces are temporary groups of employees brought together to try to solve a specific problem or dilemma. Committees are more permanent groups that work on longer range issues. Liaison personnel are people who are skilled in communicating across various functional and hierarchical levels.
 - *Distinguish among five organizational archetypes: simple, machine bureaucracy, professional bureaucracy, divisionalized, and adhocracy.* New, small firms use simple structures with too few employees to require a more complex organization. The machine bureaucracy is the classic bureaucratic structure used by medium-sized organizations in stable environments that are using mass-production technology. The professional bureaucracy applies to organizations whose workforce is made up of professionals. The divisionalized form is used by very large, complex organizations that need to separate their businesses into divisions. Adhocracy organizations, which may use network or matrix structures, are highly complex, very decentralized, and fairly informal.
 - *Critique a company's organizational structure.* Using the principles in this chapter, evaluate the new organizational structure of the company described in the *Business Dilemma* box. Your evaluation should describe which approach to job design you used, what form of departmentalization you think would be best, the degree of employee responsibility/accountability, and the level of centralization the firm employs.

Key Terms

adhocracy A centralized, informal, but complex organization that tries to maintain flexibility in the face of rapid environmental changes by using a matrix or network formal structure.

authority The right to give work orders to others in the organization; associated with a position within an organization, not with the individual who occupies that position.

behavioral approach to job design The design of jobs based on the view that workers are independent parts of the production process whose individual characteristics should be taken into account when formulating jobs.

centralization The pattern of concentrating authority in a relatively few high-level positions.

chain of command An organizing concept that ensures all positions are directly linked in some way to top management.

classical approach to job design The design of jobs based on the principles of division of labor and specialization.

continuous technology A method of production in which raw materials flow continuously through a system that transforms them into finished products.

coordination The linking of jobs, departments, and divisions so that all parts of the organization work together to achieve goals.

customer division structure A structure in which divisions are organized by customer.

decentralization When authority is dispersed to several positions at various levels in the organization.

delegation The assignment of work activities and authority to a subordinate.

departmentalization The grouping of related jobs to form an administrative unit—a department, area, or center.

divisionalized form A multidivisional structure or hybrid; typically a very large corporation that has organized its departments into divisions.

formalization The degree to which the organization's procedures, rules, and personnel requirements are written down and enforced.

formal organization The arrangement of positions, as shown on an organizational chart, that dictates where work activities are completed, where decisions should be made, and the flow of information.

functional structure The grouping of jobs according to similar economic activities, such as finance, production and operations, and marketing.

geographic division structure The organization of divisions by geographic region.

holding company An organization composed of several very different kinds of businesses, each of which is largely permitted to operate autonomously.

horizontal coordination The linking of subunits on the same level.

hybrid structure A combination of several different structures; the most common form of organizational structure.

informal organization The relationships among positions that are not connected by the organizational chart.

job A set of tasks performed by one worker.

job design The process of grouping tasks into jobs.

job enlargement A behavioral approach to job design aimed at increasing the number of tasks that make up a job.

job enrichment A behavioral approach in which jobs are designed to increase the number of similar tasks involved, especially tasks that require information processing and decision making.

job rotation A behavioral approach to job design that involves a deliberate plan to move workers to various jobs on a consistent, scheduled basis.

job specialization The division of work into smaller, distinct tasks.

machine bureaucracy A highly structured, formal organization that emphasizes procedures and rules.

mass technology The production of large numbers of the same product.

matrix structure A structure in which members of different functional departments are chosen to work together temporarily on a specific contract or project.

mechanistic organizations Structures that are highly formal, complex, and centralized.

multidivisional structure The organization of departments together into larger groups called divisions.

munificent environment An environment in which the organization has a large market for its product and enough funding to continue operations, and other stakeholder groups are satisfied or pleased with its performance.

network organization A structure, primarily a command unit, that does not make a good or provide a service but instead coordinates agreements and contracts with other organizations to produce, distribute, and sell products.

organic organizations Structures that are less formal, fairly simple, and decentralized.

organizational chart A graphic display of the official lines of authority and communication within the organization.

organizational structure The way managers group jobs into departments and departments into divisions.

product division structure The organization of divisions by product.

professional bureaucracy An organization that has a functional structure, is medium sized, and works best in stable environments but has primarily professional employees and a decentralized informal structure.

responsibility The individual's burden of accountability for attaining the organization's goals.

scalar chain The principle of organizing whereby authority should flow through the organization from the top down, one level at a time.

scarce environment An environment wherein money is tight, the market is stagnant or declining, or stakeholder groups are making conflicting or difficult demands.

simple structure A structure with few departments, arranged by function, headed by an entrepreneur/owner, and with few technical support staff.

small-batch technology The production of small numbers of goods in response to a specific customer request.

span of control The actual number of subordinates over which a position has authority.

stable environment An environment in which stakeholder demands, and specifically customer desires, are well understood and relatively stable over time.

team structure A structure in which groups of employees are used to determine ways to allocate tasks and assign responsibilities.

turbulent environment An environment wherein customer or other stakeholder demands are continuously changing or the firm's primary technology is constantly being improved and updated.

unity of command The principle that a subordinate should report to only one immediate superior.

vertical coordination The integration of succeeding levels of the organization.

virtual organization A type of organization in which members in different geographic areas use information technology to collaborate on projects and objectives.

Ready Recall

1. What are the advantages of organizing over having individuals complete all work tasks?
2. Why is it important for a company to have a strong organizational culture?
3. Describe the relationships depicted in an organizational chart.
4. Define *division of labor* and *job specialization*. Why are these important for organizing?
5. Compare and contrast the classical and behavioral approaches to job design.
6. What is meant by authority within an organization?
7. How are delegation and decentralization similar? How are they different?
8. What factors affect the span of control assigned to a position?
9. What is the difference between departments and divisions? Can the terms be used interchangeably? Why or why not?
10. Describe the types of multidivisional structures. Do companies use only one of the types, or can they be mixed?
11. What are the advantages and disadvantages of using the matrix structure? If you were the CEO of a small bicycle manufacturing company, would you use a matrix structure? Why or why not?
12. Is it true that the more formalized the corporate rules and procedures, the better? Why or why not?
13. What is meant by organic structure, and how does it differ from mechanistic structure?
14. True or false: A company in the decline stage of the corporate life cycle will always ultimately go out of business. Defend your answer.
15. What kind of structure would be best for a company in the mature stage of the life cycle?

16. The ABC Widget Company is using a cost-efficiency strategy. What formal structure is likely to work best to support that strategy? Why?
17. How is a professional bureaucracy different from an adhocracy? How are they alike?
18. Why would a company need coordinating mechanisms such as task forces or committees?

Expand Your Experience

1. Obtain an organizational chart from a medium- or large-sized company and discuss what basis it uses to departmentalize.
2. Interview the owner of a small business with several employees to find out how he or she delegates and whether the firm tends toward centralization or decentralization. What advantages and disadvantages does this offer the owner?
3. Interview a worker and his or her supervisor in a manufacturing company about their work activities. Describe the amount of specialization and division of labor in these jobs. What are the feelings of these two workers about their jobs and the organization?
4. Talk to some of your teachers and determine the chain of command in a university or college. How many levels are in your school? What do you think your school's environment is like? Why? What structure is your school using? Is that the best structure it could use? Why or why not?
5. Interview a worker and his or her supervisor in a manufacturing company about their work activities. Describe the amount of specialization and division of labor in these jobs. What are the feelings of these two workers about their jobs and the organization?

Possible Answers to Business Dilemma Questions

1. The fewer layers have increased employee empowerment and responsibility for all aspects of the job. Motivation, morale, and productivity have all increased.
2. The new structure was implemented to restore profitability in a competitive industry. The team approach is more participative than the past centralized structure. Productivity has increased as well.
3. Employees can reach better decisions and satisfaction increases. Communication is necessary for understanding and problem solving.

Case 8: Patagonia Adopts an Organizational Structure to Attract and Empower Passionate Employees

What type of organization allows employees to take off during the day to go surfing? The answer is Patagonia. When founder Yvon Chouinard first developed the company, he was not interested in pursuing profits as the firm's main goal, but rather to help improve the planet. New employees are hired based in large part on their passion for the firm's goals, and rather than being viewed as subordinates, employees at Patagonia are considered as partners who advance environmental preservation. To create this work environment, Patagonia uses a flat

organizational structure where employees have more freedom to make decisions and pursue objectives.

The inspiration for Patagonia started 60 years ago. In 1953 Chouinard developed a passion for rock climbing. His interests brought him west to the San Fernando Valley in California, where he became an expert at climbing and rappelling. Unfortunately, he was limited by a lack of appropriate climbing gear. This led Chouinard to craft his own set of reusable iron pitons. Chouinard's invention spread by word of mouth, and demand for his gear reached an all-time high. In 1965 Chouinard decided to partner with Tom Frost to create Chouinard Equipment.

While designing climbing tools, Chouinard realized there was also a need for functional climbing clothing. He and his wife decided to sell clothing as a way of supporting the hardware business. In 1972 the clothing line experienced such demand and growth that it became its own business venture. They called this venture Patagonia. The name was intended to reflect the mysticism of far-off lands and adventurous places located not quite on the map. Consumers loved Patagonia's durable and brightly colored clothing. From the beginning, Chouinard and his wife, Malinda, knew they wanted to sell items that would have a minimal impact on the environment. In 1985 the firm began donating 1% of its total sales to environmental organizations.

Unlike many organizations, Patagonia does not want its products to wear out so that consumers will have to come back for more. It aims to provide durable products to give customers the freedom to not repurchase products from the company. While this might appear to limit sales, revenue at Patagonia increased because consumers could trust Patagonia's products to last a long time.

To truly make an impact, Patagonia attempts to foster synergy between all employees. Employees are committed to the organization, and Patagonia in turn tries to create a fun informal work environment. For instance, it instituted a flextime policy that allows employees to go surfing during the day if they so desire. Solar panels, Tibetan prayer flags, and sheds full of rescued or recuperating owls and hawks are all a part of corporate headquarters. Patagonia also developed an employee internship program that enables employees to leave the company for 2 months to volunteer at an environmental organization of their choice.

Despite this flattened structure, there are still lines of authority at Patagonia. The company employs an organizational structure that resembles a functional departmentalization type of structure. For example, Patagonia has a CEO, a marketing director, and a digital creative director. Other job titles are fairly unique to the type of field in which Patagonia participates. For instance, the firm has a director of environmental strategy who is needed for Patagonia's many environmental initiatives. Each of these department managers has employees who work under them to achieve departmental goals.

Despite these authority relationships, employees are encouraged to take responsibility and maintain a strong passion for their work. Chouinard desired to share authority by allowing employees to take a greater role in strategy and operations. As such, he developed an organic organization that is fairly decentralized. To encourage employee participation, Patagonia initiated a management tool that Chouinard terms the 5-15 report. Under this management tool, employees spend 15 minutes each week writing reports for management detailing their ideas, obstacles, and views on the business. Managers then spend 5 minutes reading each

employee's report before compiling the results and sending them to the next chain of executives. These executives respond and then send those up to the next chain, until it reaches the CEO. This not only allows employees to contribute but keeps top leaders knowledgeable about what is going on in the company.

Patagonia is a strong example of how a decentralized structure can be used to build an admired company. The way it has encouraged employees to contribute to its environmental goals has helped Patagonia prosper not just financially but also environmentally (Patagonia, 2015; Abramovich, 2013; Rosenblum, 2012; Buchanan, 2013b; Daniels Fund Ethics Initiative, 2012).

1. What type of organizational structure does Patagonia use?
2. What role do employees have in Patagonia's flat structure?
3. Why is Patagonia an employee-centered organization?

