

SOLUTIONS MANUAL



Organization A STRATEGIC APPROACH Theory

SIXTH EDITION



B. J. Hodge · William P. Anthony
Lawrence M. Gales

CHAPTER 2

Structure & Design—Basic Organizational Building Blocks

I. Purpose of the Chapter

Chapter 2 explores a variety of issues related to organizational structure and design. The need for differentiation and then integration is presented. Students need to realize that organizational structure is a strategic choice that should be based on the various contingencies so as to facilitate effective performance.

II. Opening Case: A Limited View

Many students will be familiar with this popular fashion retailer. The case makes the point that this once highly successful retailer has recently experienced performance problems related to organizational structure and design. The Limited, under the leadership of founder and entrepreneur Leslie Wexner, has experienced not only problems related to a general sluggish industry, but also growth pains and difficulty in responding to a more mature market. Wexner has tried several reorganizations and re-engineering programs, but the company continues to experience difficulties. The case implies that there are no magic solutions and highlights the role of organization structure, differentiation, integration, and the necessity for adaptation. For an update on the Limited, go to www.limited.com.

III. The Nature of Structure and Design

1. Structure refers to the sum total of the ways in which an organization divides its labor into distinct tasks and then coordinates among them.
2. Design can have two meanings: (1) the appearance of the organization, and (2) the process of setting up or changing the organization. Chapter 2 emphasized the first definition.
3. Sometimes there is confusion between the terms structure and design. The structure of the organization is depicted through its organizational chart and recognizes the key concepts of differentiation and integration. Organization design includes structure, but also design parameters such as unit grouping, unit size, planning and control systems, formalization, and centralization/ decentralization of decision-making.
4. Organizations have both formal and informal organizations. The organizational chart depicts the formal organization. (For an example of an organizational chart

at an educational institution, check out MIT's website at <http://web.mit.edu/communications/orgchart.>) Superimposed on the organization is the informal or de facto organization that may not be sanctioned. Personal characteristics and patterns of social relationships that may not be captured by the formal structure are ever-present and important to recognize.

IV. Differentiation and Integration: Key Elements of Structure

1. All organizations must split their work into tasks. The division of labor into tasks is called differentiation. Large organizations, such as GM, have a highly differentiated work force. A key issue facing many managers today is how much tasks should be differentiated.
2. Organizations must split up work, but then they must integrate or coordinate it. Integration involves the various means that the organization uses to pull together the highly differentiated tasks into cohesive output.

V. Nature and Process of Differentiation

1. Three types of differentiation occur in organizations: horizontal, vertical, and spatial.

Horizontal differentiation refers to the division of work to be done into tasks and sub-tasks at the same organizational level. A modern hospital provides an excellent example of horizontal differentiation. Among doctors and medical support personnel, there exists a high degree of specialization. In the last decade, there has been a trend towards less specialization and towards broad banding, which refers to collapsing a large number of tasks into a smaller number of positions.

Vertical differentiation refers to the division of work by level of authority, hierarchy, or chain of command. Union Pacific, before 1988, had carried this to an extreme. It had nine layers of management in its Operations Department alone. Mike Walsh flattened the organization by reducing the levels to five.

Spatial differentiation involves the geographical location of different organizational activities. An automobile manufacturer may build engines at one facility and have a final assembly in another facility, in another state or even another country.

2. The level of complexity is determined largely by the amount of the three types of differentiation that exists. Complexity is often related to size, but not always so. Small companies can be complex, i.e., a medical clinic.

3. **Managing the mobile office.** There has been a growth in telecommuting. In 1999, it was estimated that over 19.6 million people worked as telecommuters. A typical worker stationed in a home-based mobile office would travel to customers or clients and log in sales or service calls on a lap top computer. Some companies claim that mobile office workers increased by 15 to 20 percent the amount of time employees spend with customers or clients. Some concerns regarding home-based mobile office workers include overwork and safety. A good website to check is <http://telecommuting.about.com/mbody.htm>.
4. Current trends in differentiation.
 - 1) Organization scholars and practitioners continue to debate how narrowly organizations should be differentiated. In the past, many organizations relied on the work of Taylor and Weber who urged highly differentiated task structures. Recently though, researchers and practitioners have recognized that extremely narrow tasks can be de-motivating and de-humanizing. Organizations, like GM's Saturn Division, have actually broadened tasks to make them more fulfilling.
 - 2) Many organizations are delayering hierarchies to facilitate communication, gain other efficiencies, and reduce costs.

VI. Integration Issues

1. Integration, or coordination, is the prime responsibility of managers. The functions of management—decision-making and influence—imply coordinating and integrating.
2. Several integrating structures are available:

Formalization includes rules, policies, and procedures. When employees are informed, knowledgeable, skilled, and possess good judgment, management may forgo formalization. The converse tends to be true as well. Spatial dispersion may increase the need for formalization. Often managers are confronted with a paradox. Formal rules meant to reduce uncertainty can create problems, because uncertain situations make it difficult to anticipate all the rules that are needed to cover uncertain outcomes.

Centralization refers to the locus of decision-making. Decision-making can be centralized, with decision-making authority vested in top management, or decentralized, with decision-making authority vested in lower-level employees. In many organizational environments, lower employees are so much more attuned to the situation that it is wise to operate in a decentralized mode. On the other hand, when a broader perspective is needed, centralized decision-making is called for.

Spans of Control refers to the number of immediate subordinates' positions that a superior position controls or coordinates. In the past, a suggested span of control was from five to seven. The thinking on spans of control now has shifted to looking at a number of factors including: the ability and experience of the manager, the ability and experience of subordinates, the nature of the task being performed, the spatial differentiation, and the amount and type of interaction needed by the supervisor. Another way to think about spans of control is whether an organization employs a tall or flat structure.

Standardization can help achieve integration by setting consistent input, process, and output requirements. Process standardization might involve strict instructions on how to do something, such as preparation of fast food. Requirements for standard inputs can help reduce the uncertainty or unpredictability of tasks. For example, fast food restaurants may deal with only one supplier of raw materials. Organizations may standardize human resources by hiring only graduates of certain MBA programs or requiring training or certification.

VII. Non-Structural Means for Integration

Other mechanisms that are not strictly speaking structures are important in integration.

Liaison roles involve horizontal linking positions that link two units or departments at the same level of the organization. For example, specialized departments such as production and shipping need to coordinate their activities.

Teams are a way organizations integrate by organizing employees and managers into work and inter-unit groups in order to enhance communications, coordination, and control.

Culture is composed of informal and unwritten rules, norms, and values that are commonly shared by organizational members. Things are done a certain way just because "that is how we do things around here."

Information Systems can aid organization integration by how they structure the system that gathers, processes, analyzes, and distributes information. E-mail, networks, video, conference calling, and LAN networks are all examples of information systems that can aid the organization in achieving integration.

VIII. Putting It Together: Mechanistic and Organic Organizations

1. Two prototypical organic types have emerged: the mechanistic organization and the organic organization.

Mechanistic. The mechanistic form is the same as Weber's bureaucracy and is sometimes referred to as a machine bureaucracy. The mechanistic form has the following attributes:

Complexity:	High Vertical and Horizontal Complexity
Formalization:	High
Centralization:	High
Spans of Control:	Narrow Spans of Control
Standardization:	High

Organic organization. This type is at the other end of the continuum and has the following attributes:

Complexity:	Low Vertical and Low Horizontal Complexity
Formalization:	Low
Centralization:	High Decentralization
Spans of Control:	Broad Spans of Control
Standardization:	Low

2. Three points need to be kept in mind with regard to mechanistic/organic types.
 - 1) They are prototypes or ideals. Most organizations will vary from the extremes.
 - 2) Some organizations may not adopt the appropriate structural attributes and, therefore, may be inefficient and ineffective.
 - 3) In some situations there are non-structural ways for managing the context.

Questions for Discussion

1. What is the basic difference between structure and design?

While they are often confused in the literature and used interchangeably, structure recognizes two elements: differentiation and integration. Organization design is a broader concept that includes structure, but also includes parameters such as unit grouping, unit size, planning and control systems, behavioral formalization, and centralization/decentralization of decision making.

2. Basically, what is shown on an organization chart?

The organization chart shows the formal organization that is the officially sanctioned structure. It delineates the authority, or reporting relationships, that exist in the organization.

3. What is the informal organization, and how is it related to the formal organization? Is it possible for there to be a formal organization without an accompanying informal organization? Explain.

The informal organization represents the de facto relationships that are not necessarily sanctioned by the organization, even though they may be perceived as actually existing. In the informal structure, it is impossible to separate the roles and the relationships from people. Personal characteristics and patterns of social relationships that may not be captured in the formal structure are ever-present and important to the formal structure. The informal organization evolves from people working in organizations that are political.

The informal organization is often the result of flaws, vagueness, incompleteness, or inefficiencies in the formal design, or because of changes in organization faces. In theory, in a perfect organization, the informal organization would either not exist or would be of little importance. As a practical matter though, the conditions cited above are prevalent, and virtually all organizations have an informal organization. Skilled managers understand and utilize both the formal and informal organization to accomplish their objectives.

4. Why is differentiation necessary to build a formal organization structure?

Organizations today must accomplish complex work. It is virtually impossible, or economically unfeasible, for an individual to accomplish all of the tasks that are required to deliver products and services. To carry out its mission more efficiently, an organization will divide its work into many tasks and allocate those tasks to workers who can apply their skills to a limited part of the total product or service. Organizations tend to differentiate in three different ways: horizontally, vertically, and spatially.

5. What is integration and how can it be achieved in a large organization?

Because organizations must divide up work, integration is the necessary coordination among the various tasks to ensure that the overall goals of the organization are achieved. In smaller organizations, integration can often be achieved by direct contact and supervision of one or two key people. Large organizations that are highly differentiated often turn to both formal and informal integrating means. Formal structures include: formalization (through rules, policies, and procedures), centralization, spans of control, and standardization. Informal or non-structural integrating means include: liaison roles, teams, culture, and information systems.

6. Is spatial differentiation limited to large organizations? Explain.

Spatial differentiation is now a reality for various sizes of organizations. As pointed out in the chapter, the advent of low-cost powerful technology has allowed smaller organizations to disperse various parts of their operations across a broader geographical area.

7. How is the concept of span of control related to both integration and differentiation?

Organizations must differentiate work in order to accomplish the job. Managers must then integrate the various tasks into a coordinated whole. In general, the more competent the manager and subordinates, the less geographical dispersion, and the less interrelated and more routine the tasks of the subordinates, the wider the span of control can be. On the other hand, the more differentiated the work, the more complex is the job of integration. Therefore, the span of control will be have had to be fairly narrow.

8. Distinguish between a mechanistic and an organic structure. When would you suggest that each be used? Can they be used together in the same organization? Explain.

The mechanistic and organic structures are prototypes and represent extremes. Mechanistic organizations have high vertical and horizontal complexity, high formalization, high centralization, narrow spans of control, and high standardization. Organic organizations have low vertical and horizontal complexity, low formalization, high decentralization, broad spans of control and low standardization. Rarely is one of the pure forms appropriate. According to contingency theory, five contextual factors must be considered in selecting the proper balance in the structural design, including: goals, environments, technology, size, and culture. We have seen in the GM-Saturn case, for example, that GM has traditionally operated in a fairly mechanistic way, but utilized a much more organic approach with the Saturn Division. With recent moves, GM is trying to capitalize on the organic flexibility at Saturn, while at the same time trying to move Saturn into its more traditional structure.

Case Analysis: Shoot The Moon

Websites:

www.gm.com

<http://www.saturnbp.com>

1. How would you suggest that GM go about coordinating the Saturn Division with the rest of the small-car division? Would different techniques be needed to tie the small-car division to the parent company? Explain.

GM has a tough job! It must recognize the organic, flexible nature of the Saturn Division. Saturn clearly has a different culture and orientation. The problem has been financial performance and the fact that it needs expanded production capacity. There will need to be changes and compromises at both Saturn and the existing small-car companies. There should be a particular focus on what are the strengths and weaknesses of both existing structures. Compromise is not necessarily called for. Rather, the best practices need to be adopted in such a way as to reduce costs and improve the small-car

division. Since GM is undertaking a larger effort to reorganize its North American operations, this is a good time to rethink in a systematic way (as explained in Chapter 1) how the overall corporation can function in a more open systems manner.

Tying the revamped small-car division to the parent company can provide advantages to both, so long as GM does not revert to dysfunctional bureaucratic ways of the past. GM certainly recognizes the differences inherent in the small-car market. It must give the small car division the independence and flexibility to react in the marketplace, while not undercutting the goals of GM's traditional strengths in the larger-car markets. Strategic planning must be coordinated. A paradox may arise for GM. It may have to consider more centralization within the small-car division, while at the same time undertaking greater decentralization between the small-car division and the parent company.

2. What do you see as the major problem(s) to be solved by this reorganization? What major problem(s) do you think it will create or aggravate?

Perhaps the most pressing problem is the financial performance of Saturn. Secondly, Saturn simply does not have the capacity to produce the demand for its product. By sharing resources and production capabilities of the small-car division, Saturn will be in a position to increase capacity without massive new investments.

Saturn has developed a very different way of operating. It has a separate labor agreement, organization structure, and marketing strategy. Tying it to other traditional units will not be easy because of the vast cultural differences. Saturn managers who have had a rather free hand may find their flexibility somewhat limited. Managers from the existing small-car division may have difficulty in managing in a more Saturn-like organic structure.

Customers who have been lured to Saturn's way of doing business may be suspicious of GM's intervention. Even though there was some initial question whether this organizational move would taint the Saturn image, Saturn was recently ranked as the top brand in customer satisfaction. So far so good!

GM might be risking some of its special labor agreements. The United Auto Workers might use this as an opportunity to force more traditional labor provisions.

Finally, the morale of the Saturn work force could suffer. They have been held up as something special not only in GM, but also in the country at large. Even with all of the promises made by GM, employees and managers at Saturn are apt to be suspicious of the reorganization. GM has had a recent history of disastrous reorganizations. Saturn employees and the public at large are likely to be skeptical of the changes.

3. What organizational factors suggest that Saturn will continue to be independent?

There are several, including:

- 1) GM's overall attempt to reorganize its entire North American operation demonstrates that it is open to innovation and will be less likely to suppress innovation. During the late 90's, it has continued to increase investments and coordination between Saturn units and GM's North American groups.
- 2) The naming of Richard LeFauve helped to insure that Saturn's interests were paramount.
- 3) GM recognizes Saturn's customer loyalty, employee loyalty, and innovation. It has expressed a commitment to protect these.
- 4) To summarize, GM is trying to achieve the best of both worlds by bringing Saturn back into the fold, while at the same time not stifling it, and therefore, keeping a semblance of independence.

4. Will the spatial differentiation patterns in GM be disturbed by this move? Explain.

To a degree, yes. Saturn has been a business "island" up to this point. Now there will be sharing of some functions, including engineering and manufacturing costs. Also by pulling the Cavaliers and Sunfires from their existing organization, there will be a reshuffling of the spatial components.

5. Suggest some integrating structures for the new move.

- 1) Certain policies and procedures will need to be developed both for the overall corporation and within the small-car division. Given GM's past penchant for rigid rules and procedures, they must guard against this. Clear goals should be developed before formalized procedures are put into place. Vigilance must then prevail to make sure that the procedures are updated and flexible enough to change with the market place. GM must recognize that the small-car division has different problems and opportunities, and not force inappropriate regulations on it.
- 2) A good reorganization strategy would be to both centralize and decentralize decision-making simultaneously. There needs to be an umbrella corporate strategy, and decision-making should be pushed down the structure at the same time.
- 3) In a global market, GM must seek to standardize as much as possible, as well as provide for responsiveness. This involves integrating the best practices from inside GM and the outside environment.
- 4) Non-structural means, such as liaison roles, teams, information systems, and culture, will be difficult to implement because of GM's sheer size, but the top management team needs to utilize these whenever possible. Saturn has proven that these can work at the division level. Whether what has been learned at Saturn can be transferred to the larger GM organization is open to question.

6. Would you expect the entire GM organization structure to be flatter or taller after this reorganization? Explain.

GM is notorious for layer after layer of bureaucracy. It is attempting to flatten the structure by consolidating and reorganizing. However, from Saturn's perspective, the situation is different. In the past, the company could respond to the environment with very little interference from the parent company. Now the chain of command is actually taller, since Saturn will have to coordinate certain aspects of its operation with the small-car division and, ultimately, the corporation at large.

7. Is this a move towards a mechanistic or an organic structure? Explain.

Overall, GM is moving towards a more mechanistic structure in the sense that it is reducing the number of divisions and centralizing much of its overall corporate strategy. On the other hand, if the new divisions are given more authority, within their divisions, to coordinate policy in order to meet the dynamic marketplace, it may be simultaneously moving towards an organic structure. As pointed out in the chapter, large complex organizations, like GM, are not one or the other. Certain aspects of the new GM are likely to be more mechanistic and other aspects more organic. Skilled organizational designers are not trapped into thinking simplistically, but rather must consider a myriad of variables and adopt the appropriate hybrid structure and design.

Key Term	Definition/Explanation
Broadbanding	Collapsing a large number of distinct tasks into a smaller number of positions.
Centralization	Centralization refers to the locus of decision-making. Decision-making can be centralized, with decision-making authority vested in top management, or decentralized, with decision-making authority vested in lower-level employees.
Culture	Organizational culture is composed of the informal and unwritten values, norms, and behavior patterns that are commonly accepted.
Delaying hierarchies	Pushing decision-making down and broadening employees' responsibilities.
Differentiation	Splitting work into units called tasks. Three types of differentiation are horizontal, vertical and spatial.
Formal organization	Officially sanctioned structure or de jure organization. The officially designated roles and relationships.
Formalization	Creation of formal rules, policies and procedures to assure that individuals and departments performing highly differentiated tasks coordinate their work.
Horizontal differentiation	Refers to the division of work to be done into tasks and subtasks at the same organizational level. Sometimes referred to as specialization.
Informal organization	Relationships that are de facto and not necessarily sanctioned by the organization. The informal organization is the result of the political nature of organizations and evolves from people working in the organization.
Integration	Coordination of work after it has been differentiated.
Liaison roles	A nonstructural means of integration that involves creating horizontal linking positions that link two or more departments at the same level of the organization.
Mechanistic organizations	Organizations that are similar to Weber's bureaucracy and sometimes referred to as machine bureaucracies. High vertical and horizontal complexity, formal, highly centralized, high standardization and narrow spans of control. The opposite prototype of organic.
Mobile office	An office based out of a home where the employee does business from the home and/or travels to clients' places of businesses. He/she then transmits information via a portal or desktop computer back to the company's main office. The employee returns home each day rather than going into a company office.
Organic organization	The opposite prototype of mechanistic. Low vertical and horizontal complexity, low formalization, high decentralization, broad spans of control, and low standardization.
Span of control	Refers to the number of immediate subordinate positions that a superior position controls or coordinates.
Spatial differentiation	Involves the geographical location of different organizational activities.
Specialization	See horizontal differentiation.

Key Term	Definition/Explanation
Standardization	A method that helps achieve integration by setting consistent input, process, and output requirements.
Structure	Refers to the sum total of ways in which an organization divides its labor into distinct tasks and then coordinates among them.
Teams	A nonstructural means of integration where employees and managers are organized into work and interunit groups in order to enhance communication, coordination, and control.
Vertical differentiation	Refers to division of work by level of authority, hierarchy, or chain of command.