

Chapter 7

Designing Organizational Structures

In today's dynamic business environment, organizational structures need to be designed so that the organization can quickly respond to new competitive threats and changing customer needs. Future success for companies will depend on their ability to be flexible and respond to the needs of customers. In this chapter, we'll look first at how companies build organizational structures by implementing traditional, contemporary, and team-based models. Then, we'll explore how managers establish the relationships within the structures they have designed, including determining lines of communication, authority, and power. Finally, we'll examine what managers need to consider when designing organizational structures and the trends that are changing the choices companies make about organizational design.

7.1 Building Organizational Structures

1. What are the traditional forms of organizational structure?

The key functions that managers perform include planning, organizing, leading, and controlling. This module focuses specifically on the organizing function. *Organizing* involves coordinating and allocating a firm's resources so that the firm can carry out its plans and achieve its goals. This organizing, or structuring, process is accomplished by:

- Determining work activities and dividing up tasks (*division of labor*)
- Grouping jobs and employees (*departmentalization*)
- Assigning authority and responsibilities (*delegation*)

The result of the organizing process is a formal structure within an organization. An **organization** is the order and design of relationships within a company or firm. It consists of two or more people working together with a common objective and clarity of purpose. Formal organizations also have well-defined lines of authority, channels for information flow, and means of control. Human, material, financial, and information resources are deliberately connected to form the business organization. Some connections are long-lasting, such as the links among people in the finance or marketing department. Others can be changed at almost any time—for example, when a committee is formed to study a problem.

Every organization has some kind of underlying structure. Typically, organizations base their frameworks on traditional, contemporary, or team-based approaches. Traditional structures are more rigid and group employees by function, products, processes, customers, or regions. Contemporary and team-based structures are more flexible and assemble employees to respond quickly to dynamic business environments. Regardless of the structural framework a company chooses to implement, all managers must first consider what kind of work needs to be done within the firm.

Division of Labor

The process of dividing work into separate jobs and assigning tasks to workers is called **division of labor**. In a fast-food restaurant, for example, some employees take or fill orders, others prepare food, a few clean and maintain equipment, and at least one supervises all the others. In an auto assembly plant, some workers install rearview mirrors, while others mount bumpers on bumper brackets. The degree to which the tasks are subdivided into smaller jobs is called **specialization**. Employees who work at highly specialized jobs, such as assembly-line workers, perform a limited number and variety of tasks. Employees who become specialists at one task, or a small number of tasks, develop greater skill in doing that particular job. This can lead to greater efficiency and consistency in production and other work activities. However, a high degree of specialization can also result in employees who are disinterested or bored due to the lack of variety and challenge.

Traditional Structures

After a company divides the work it needs to do into specific jobs, managers then group the jobs together so that similar or associated tasks and activities can be coordinated. This grouping of people, tasks, and resources into organizational units is called **departmentalization**. It facilitates the planning, leading, and control processes.

An **organization chart** is a visual representation of the structured relationships among tasks and the people given the authority to do those tasks. In the organization chart in **Exhibit 7.4**, each figure represents a job, and each job includes several tasks. The sales manager, for instance, must hire salespeople, establish sales territories, motivate and train the salespeople, and control sales operations. The chart also indicates the general type of work done in each position. As **Exhibit 7.5** shows, five basic types of departmentalization are commonly used in organizations:

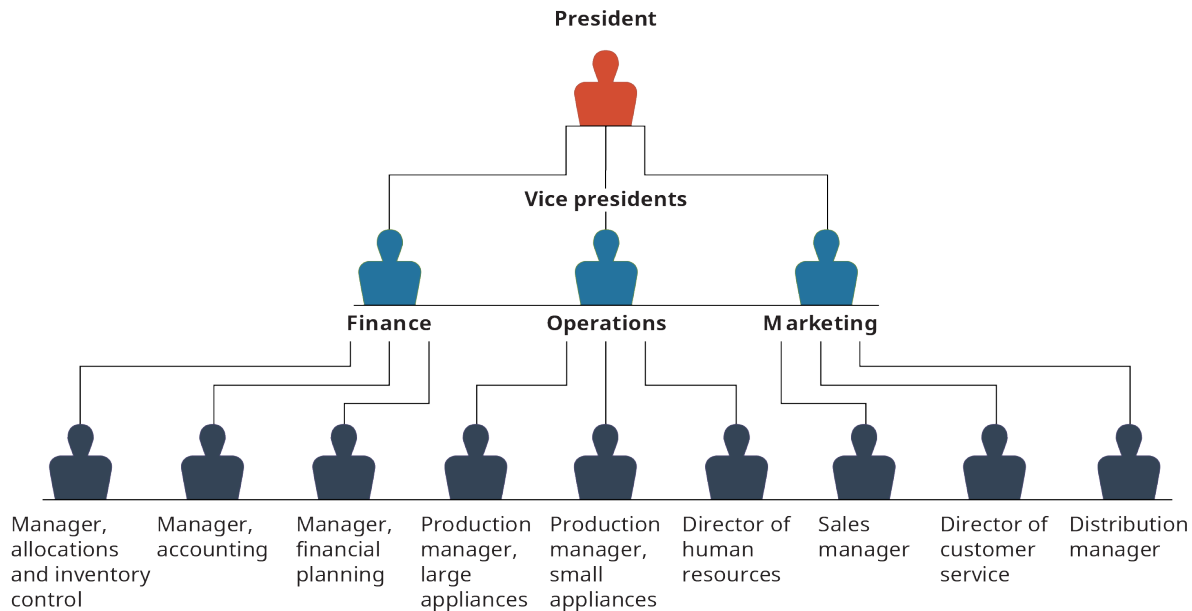


Exhibit 7.4 Organization Chart for a Typical Appliance Manufacturer Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license

1. **Functional departmentalization**, which is based on the primary functions performed within an organizational unit (marketing, finance, production, sales, and so on). Ethan Allen Interiors, a vertically integrated home furnishings manufacturer, continues its successful departmentalization by function, including retail, manufacturing and sourcing, product design, logistics, and operations, which includes tight financial controls.

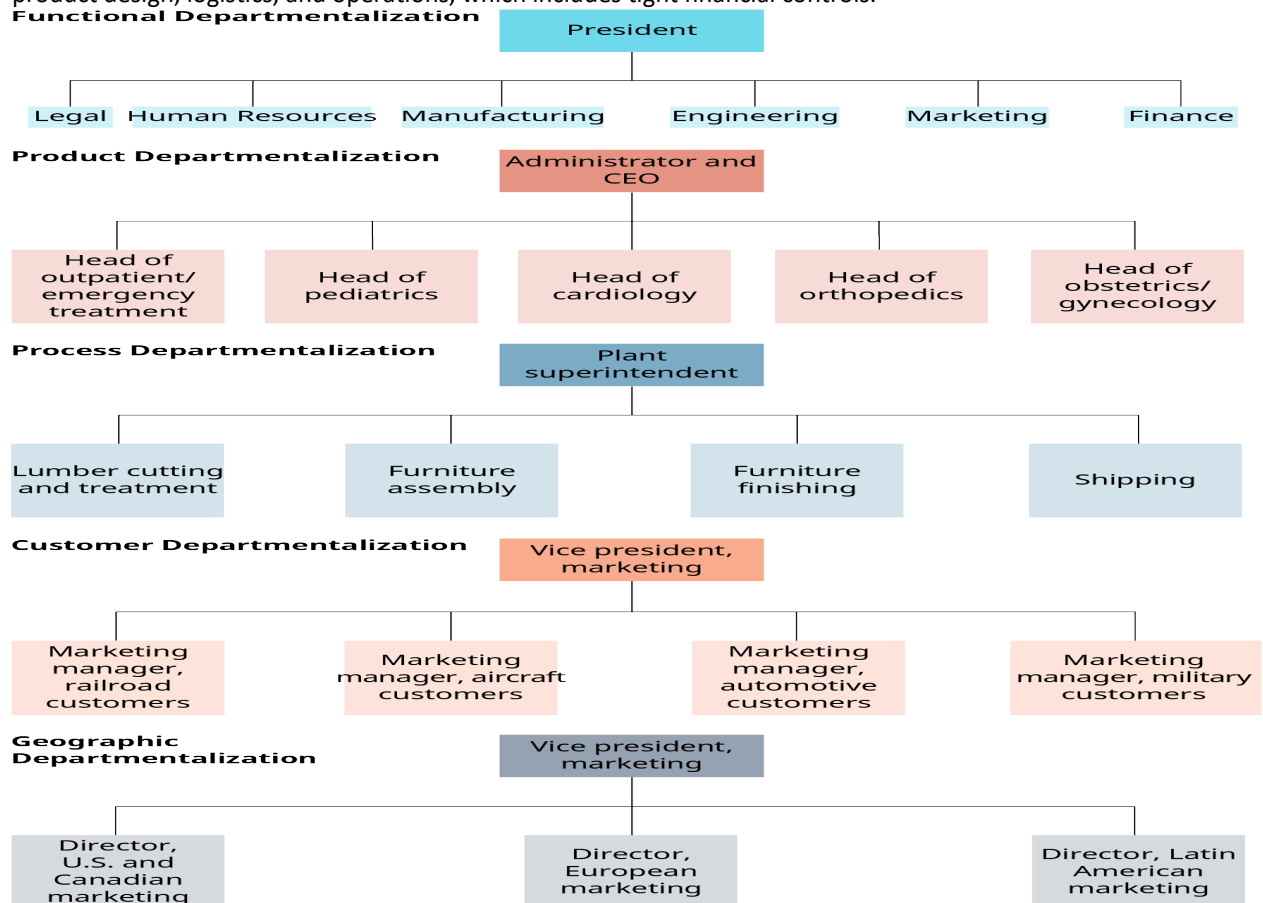


Exhibit 7.5 Five Traditional Ways to Organize (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

2. **Product departmentalization**, which is based on the goods or services produced or sold by the organizational unit (such as outpatient/emergency services, pediatrics, cardiology, and orthopedics). For example, ITT is a diversified leading

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manufacturer of highly engineered components and customized technology solutions for the transportation, industrial, and oil and gas markets. The company is organized into four product divisions: Industrial Process (pumps, valves, and wastewater treatment equipment), Control Technologies (motion control and vibration isolation products), Motion Technologies (shock absorbers, brake pads, and friction materials), and Interconnect Solutions (connectors for a variety of markets).

3. **Process departmentalization**, which is based on the production process used by the organizational unit (such as lumber cutting and treatment, furniture finishing, and shipping). For example, the organization of Gazprom Neft, a Russian oil company, reflects the activities the company needs to perform to extract oil from the ground and turn it into a final product: exploration and research, production (drilling), refining, and marketing and distribution. Pixar, the animated-movie company now part of Disney, is divided into three parallel yet interactive process-based groups: technology development, which delivers computer-graphics tools; creative development, which creates stories and characters and animates them; and production, which coordinates the film-making process.
4. **Customer departmentalization**, which is based on the primary type of customer served by the organizational unit (such as wholesale or retail purchasers). The PNC Financial Services Group offers a wide range of services for all of its customers and is structured by the type of consumer it serves: retail banking for consumers; the asset management group, with specific focus on individuals as well as corporations, unions, municipalities, and others; and corporate and institutional banking for middle-market companies nationwide.
5. **Geographic departmentalization**, which is based on the geographic segmentation of organizational units (such as U.S. and Canadian marketing, European marketing, and Latin American marketing).

People are assigned to a particular organizational unit because they perform similar or related tasks, or because they are jointly responsible for a product, client, or market. Decisions about how to departmentalize affect the way management assigns authority, distributes resources, rewards performance, and sets up lines of communication. Many large organizations use several types of departmentalization. For example, Procter & Gamble (P&G), the multibillion-dollar consumer-products company, integrates four different types of departmentalization, which the company refers to as “four pillars.” First, the Global Business Units (GBU) divide the company according to products (baby, feminine, and family care; beauty; fabric and home care; and health and grooming). Then, P&G uses a geographical approach, creating business units to market its products around the world. There are Selling and Market Operations (SMO) groups for North America; Latin America; Europe; Asia Pacific; Greater China; and India, the Middle East, and Africa. P&G’s third pillar is Global Business Services division (GBS), which also uses geographic departmentalization. GBS provides technology processes and standard data tools to enable the GBUs and SMOs to better understand the business and to serve consumers and customers better. It supports P&G business units in areas such as accounting and financial reporting, information technology, purchases, payroll and benefits administration, and facilities management. Finally, the divisions of the Corporate Functions pillar provide a safety net to all the other pillars. These divisions are comprised of functional specialties such as customer business development; external relations; human resources; legal, marketing, consumer, and market knowledge; research and development; and workplace services.

Line-and-Staff Organization

The **line organization** is designed with direct, clear lines of authority and communication flowing from the top managers downward. Managers have direct control over all activities, including administrative duties. An organization chart for this type of structure would show that all positions in the firm are directly connected via an imaginary line extending from the highest position in the organization to the lowest (where production of goods and services takes place). This structure, with its simple design and broad managerial control, is often well-suited to small, entrepreneurial firms.

As an organization grows and becomes more complex, the line organization can be enhanced by adding staff positions to the design. Staff positions provide specialized advisory and support services to line managers in the **line-and-staff organization**, shown in **Exhibit 7.6**. In daily operations, individuals in **line positions** are directly involved in the processes used to create goods and services. Individuals in **staff positions** provide the administrative and support services that line employees need to achieve the firm’s goals. Line positions in organizations are typically in areas such as production, marketing, and finance. Staff positions are found in areas such as legal counseling, managerial consulting, public relations, and human resource management.

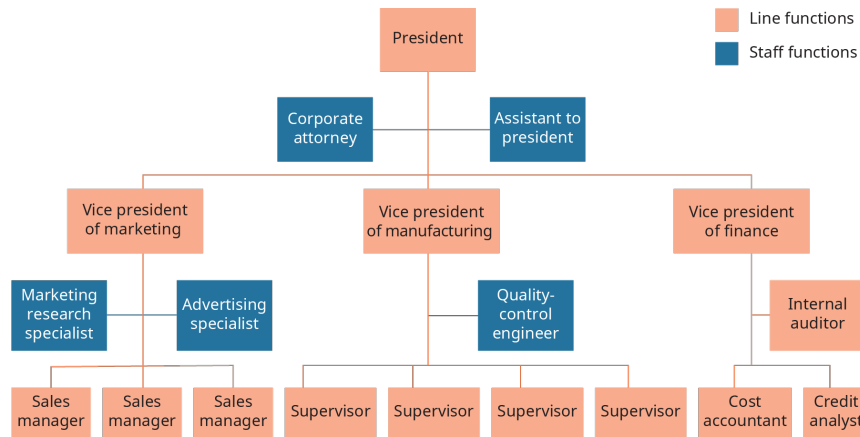


Exhibit 7.6 Line-and-Staff Organization (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

7.2 Contemporary Structures

2. What contemporary organizational structures are companies using?

Although traditional forms of departmentalization still represent how many companies organize their work, newer, more flexible organizational structures are in use at many firms. Let's look at matrix and committee structures and how those two types of organizations are helping companies better leverage the diverse skills of their employees.

Matrix Structure

The **matrix structure** (also called the *project management* approach) is sometimes used in conjunction with the traditional line-and-staff structure in an organization. Essentially, this structure combines two different forms of departmentalization, functional and product, that have complementary strengths and weaknesses. The matrix structure brings together people from different functional areas of the organization (such as manufacturing, finance, and marketing) to work on a special project. Each employee has two direct supervisors: the line manager from her or his specific functional area and the project manager. **Exhibit 7.7** shows a matrix organization with four special project groups (A, B, C, D), each with its own project manager. Because of the dual chain of command, the matrix structure presents some unique challenges for both managers and subordinates.

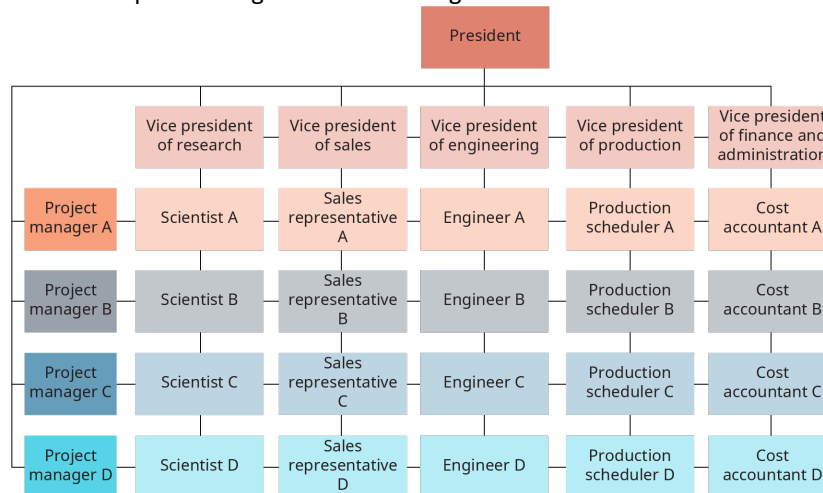


Exhibit 7.7 Matrix Organization (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Advantages of the matrix structure include:

- **Teamwork.** By pooling the skills and abilities of various specialists, the company can increase creativity and innovation and tackle more complex tasks.
- **Efficient use of resources.** Project managers use only the specialized staff they need to get the job done, instead of building large groups of underused personnel.
- **Flexibility.** The project structure is flexible and can adapt quickly to changes in the environment; the group can be disbanded quickly when it is no longer needed.
- **Ability to balance conflicting objectives.** The customer wants a quality product and predictable costs. The organization wants high profits and the development of technical capability for the future. These competing goals serve as a focal point for directing activities and overcoming conflict. The marketing representative can represent the customer, the finance

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representative can advocate high profits, and the engineers can push for technical capabilities.

- *Higher performance.* Employees working on special project teams may experience increased feelings of ownership, commitment, and motivation.
- *Opportunities for personal and professional development.* The project structure gives individuals the opportunity to develop and strengthen technical and interpersonal skills.

Disadvantages of the matrix structure include:

- *Power struggles.* Functional and product managers may have different goals and management styles.
- *Confusion among team members.* Reporting relationships and job responsibilities may be unclear.
- *Lack of cohesiveness.* Team members from different functional areas may have difficulty communicating effectively and working together as a team.

Although project-based matrix organizations can improve a company's flexibility and teamwork, some companies are trying to unravel complex matrix structures that create limited accountability and complicate day-to-day operations. Some CEOs and other top managers suggest that matrix structures make it easier to blame others when things don't go as planned.

Committee Structure

In **committee structure**, authority and responsibility are held by a group rather than an individual. Committees are typically part of a larger line-and-staff organization. Often the committee's role is only advisory, but in some situations the committee has the power to make and implement decisions. Committees can make the coordination of tasks in the organization much easier. For example, Novartis, the huge Swiss pharmaceutical company, has a committee structure, which reports to its board of directors. The company's executive committee is responsible for overseeing the business operations of group companies within the global organization and consists of the CEO, CFO, head of HR, general counsel, president of operations, head of biomedical research, global head of drug development, CEOs of the pharmaceutical and oncology units, and CEOs of Sandoz and Alcon, other Novartis companies. Members of the executive committee are selected by the company's board of directors.

Committees bring diverse viewpoints to a problem and expand the range of possible solutions, but there are some drawbacks. Committees can be slow to reach a decision and are sometimes dominated by a single individual. It is also more difficult to hold any one individual accountable for a decision made by a group. Committee meetings can sometimes go on for long periods of time with seemingly little being accomplished.

7.3 Using Teams to Enhance Motivation and Performance

3. Why are companies using team-based organizational structures?

4.

One of the most apparent trends in business today is the use of teams to accomplish organizational goals. Using a team-based structure can increase individual and group motivation and performance. This section gives a brief overview of group behavior, defines work teams as specific types of groups, and provides suggestions for creating high-performing teams.

Understanding Group Behavior

Teams are a specific type of organizational group. Every organization contains *groups*, social units of two or more people who share the same goals and cooperate to achieve those goals. Understanding some fundamental concepts related to group behavior and group processes provides a good foundation for understanding concepts about work teams. Groups can be formal or informal in nature. Formal groups are designated and sanctioned by the organization; their behavior is directed toward accomplishing organizational goals. Informal groups are based on social relationships and are not determined or sanctioned by the organization.

Formal organizational groups, like the sales department at Apple, must operate within the larger Apple organizational system. To some degree, elements of the larger Apple system, such as organizational strategy, company policies and procedures, available resources, and the highly motivated employee corporate culture, determine the behavior of smaller groups, such as the sales department, within the company. Other factors that affect the behavior of organizational groups are individual member characteristics (e.g., ability, training, personality), the roles and norms of group members, and the size and cohesiveness of the group. Norms are the implicit behavioral guidelines of the group, or the standards for acceptable and unacceptable behavior. For example, an Apple sales manager may be expected to work at least two Saturdays per month without extra pay. Although this isn't written anywhere, it is the expected norm.

Group cohesiveness refers to the degree to which group members want to stay in the group and tend to resist outside influences (such as a change in company policies). When group performance norms are high, group cohesiveness will have a positive impact on productivity. Cohesiveness tends to increase when the size of the group is small, individual and group goals are similar, the group

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has high status in the organization, rewards are group-based rather than individual-based, and the group competes with other groups within the organization. Work group cohesiveness can benefit the organization in several ways, including increased productivity, enhanced worker self-image because of group success, increased company loyalty, reduced employee turnover, and reduced absenteeism. Southwest Airlines is known for its work group cohesiveness. On the other hand, cohesiveness can also lead to restricted output, resistance to change, and conflict with other work groups in the organization.

The opportunity to turn the decision-making process over to a group with diverse skills and abilities is one of the arguments for using work groups (and teams) in organizational settings. For group decision-making to be most effective, however, both managers and group members must understand its strengths and weaknesses (see **Table 7.1**).

Work Groups versus Work Teams

We have already noted that teams are a special type of organizational group, but we also need to differentiate between work groups and work teams. **Work groups** share resources and coordinate efforts to help members better perform their individual duties and responsibilities. The performance of the group can be evaluated by adding up the contributions of the individual group members. **Work teams** require not only coordination but also *collaboration*, the pooling of knowledge, skills, abilities, and resources in a collective effort to attain a common goal. A work team creates *synergy*, causing the performance of the team as a whole to be greater than the sum of team members' individual contributions. Simply assigning employees to groups and labeling them a team does not guarantee a positive outcome. Managers and team members must be committed to creating, developing, and maintaining high-performance work teams. Factors that contribute to their success are discussed later in this section.

Strengths and Weaknesses of Group Decision Making	
Strengths	Weaknesses
- Groups bring more information and knowledge to the decision-making process. - Groups offer a diversity of perspectives and, therefore, generate a greater number of disagreements. - Group decision-making results in a higher-quality decision than does individual decision-making. - Participation of group members increases the likelihood that a decision will be accepted.	- Groups typically take a longer time to reach a solution than an individual takes. - Group members may pressure others to conform, reducing the likelihood of alternatives. - The process may be dominated by one or a small number of participants. - Groups lack accountability, because it is difficult to assign responsibility for outcomes to any one individual.

Table 7.1

Types of Teams

The evolution of the team concept in organizations can be seen in three basic types of work teams: problem-solving, self-managed, and cross-functional. **Problem-solving teams** are typically made up of employees from the same department or area of expertise and from the same level of the organizational hierarchy. They meet on a regular basis to share information and discuss ways to improve processes and procedures in specific functional areas. Problem-solving teams generate ideas and alternatives and may recommend a specific course of action, but they typically do not make final decisions, allocate resources, or implement change.

Many organizations that experienced success using problem-solving teams were willing to expand the team concept to allow team members greater responsibility in making decisions, implementing solutions, and monitoring outcomes. These highly autonomous groups are called **self-managed work teams**. They manage themselves without any formal supervision, taking responsibility for setting goals, planning and scheduling work activities, selecting team members, and evaluating team performance.

Today, approximately 80 percent of Fortune 1000 companies use some sort of self-managed teams. One example is Zappos's shift to self-managed work teams in 2013, where the traditional organizational structure and bosses were eliminated, according to a system called holacracy. Another version of self-managing teams can be found at W. L. Gore, the company that invented Gore-Tex fabric and Glide dental floss. The three employees who invented Elixir guitar strings contributed their spare time to the effort and persuaded a handful of colleagues to help them improve the design. After working three years *entirely* on their own—without asking for any supervisory or top management permission or being subjected to any kind of oversight—the team finally sought the support of the larger company, which they needed to take the strings to market. Today, W. L. Gore's Elixir is the number one selling string brand for acoustic guitar players.

An adaptation of the team concept is called a **cross-functional team**. These teams are made up of employees from about the same hierarchical level but different functional areas of the organization. Many task forces, organizational committees, and project teams are cross-functional. Often the team members work together only until they solve a given problem or complete a specific project. Cross-functional teams allow people with various levels and areas of expertise to pool their resources, develop new ideas, solve problems, and coordinate complex projects. Both problem-solving teams and self-managed teams may also be cross-functional teams.

Building High-Performance Teams

A great team must possess certain characteristics, so selecting the appropriate employees for the team is vital. Employees who are more willing to work together to accomplish a common goal should be selected, rather than employees who are more interested in their own personal achievement. Team members should also possess a variety of skills. Diverse skills strengthen the overall effectiveness of the team, so teams should consciously recruit members to fill gaps in the collective skill set. To be effective, teams must also have clearly defined goals. Vague or unclear goals will not provide the necessary direction or allow employees to measure their performance against expectations.

Next, high-performing teams need to practice good communication. Team members need to communicate messages and give appropriate feedback that seeks to correct any misunderstandings. Feedback should also be detached; that is, team members should be careful to critique ideas rather than criticize the person who suggests them. Nothing can degrade the effectiveness of a team like personal attacks. Lastly, great teams have great leaders. Skilled team leaders divide work so that tasks are not repeated, help members set and track goals, monitor their team's performance, communicate openly, and remain flexible to adapt to changing goals or management demands.

7.4 Authority-Establishing Organizational Relationships

4. What tools do companies use to establish relationships within their organizations?

Once companies choose a method of departmentalization, they must then establish the relationships within that structure. In other words, the company must decide how many layers of management it needs and who will report to whom. The company must also decide how much control to invest in each of its managers and where in the organization decisions will be made and implemented.

Managerial Hierarchy

Managerial hierarchy (also called the *management pyramid*) is defined by the levels of management within an organization. Generally, the management structure has three levels: top, middle, and supervisory management. In a managerial hierarchy, each organizational unit is controlled and supervised by a manager in a higher unit. The person with the most formal authority is at the top of the hierarchy. The higher a manager, the more power they have. Thus, the amount of power decreases as you move down the management pyramid. At the same time, the number of employees increases as you move down the hierarchy. Not all companies today are using this traditional configuration. One company that has eliminated hierarchy altogether is The Morning Star Company, the largest tomato processor in the world. Based in Woodland, California, the company employs 600 permanent "colleagues" and an additional 4,000 workers during harvest season. Founder and sole owner Chris Rufer started the company and based its vision on the philosophy of self-management, in which professionals initiate communication and coordination of their activities with colleagues, customers, suppliers, and others, and take personal responsibility for helping the company achieve its corporate goals.

An organization with a well-defined hierarchy has a clear **chain of command**, which is the line of authority that extends from one level of the organization to the next, from top to bottom, and makes clear who reports to whom. The chain of command is shown in the organization chart and can be traced from the CEO all the way down to the employees producing goods and services. Under the *unity of command* principle, everyone reports to and gets instructions from only one boss. Unity of command guarantees that everyone will have a direct supervisor and will not be taking orders from a number of different supervisors. Unity of command and chain of command give everyone in the organization clear directions and help coordinate people doing different jobs.

Matrix organizations automatically violate the unity of command principle because employees report to more than one boss, if only for the duration of a project. For example, Unilever, the consumer-products company that makes Dove soap, Ben & Jerry's ice cream, and Hellmann's mayonnaise, used to have a matrix structure with one CEO for North America and another for Europe. But employees in divisions that operated in both locations were unsure about which CEO's decisions took precedence. Today, the company uses a product departmentalization structure.¹³ Companies like Unilever tend to abandon matrix structures because of problems associated with unclear or duplicate reporting relationships, in other words, with a lack of unity of command.

Individuals who are part of the chain of command have authority over other persons in the organization. **Authority** is legitimate

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power, granted by the organization and acknowledged by employees, that allows an individual to request action and expect compliance. Exercising authority means making decisions and seeing that they are carried out. Most managers *delegate*, or assign, some degree of authority and responsibility to others below them in the chain of command. The **delegation of authority** makes the employees accountable to their supervisor. *Accountability* means responsibility for outcomes. Typically, authority and responsibility move downward through the organization as managers assign activities to, and share decision-making with, their subordinates. Accountability moves upward in the organization as managers in each successively higher level are held accountable for the actions of their subordinates.

Span of Control

Each firm must decide how many managers are needed at each level of the management hierarchy to effectively supervise the work performed within organizational units. A manager's **span of control** (sometimes called *span of management*) is the number of employees the manager directly supervises. It can be as narrow as two or three employees or as wide as 50 or more. In general, the larger the span of control, the more efficient the organization. As **Table 7.2** shows, however, both narrow and wide spans of control have benefits and drawbacks.

Narrow and Wide Spans of Control		
	Advantages	Disadvantages
Narrow span of control	• This approach allows a high degree of control. • Fewer subordinates may mean the manager is more familiar with each individual. • Close supervision can provide immediate feedback.	• More levels of management mean that it is more expensive. • Decision-making is slower due to vertical layers. • Top management are isolated. • This approach discourages employee autonomy.
Wide span of control	• Fewer levels of management means increased efficiency and reduced costs. • Increased subordinate autonomy leads to quicker decision-making. • This approach allows for greater organizational flexibility. • This approach creates higher levels of job satisfaction due to employee empowerment.	• This approach allows for less control. • Managers may lack familiarity with their subordinates due to the large number. • Managers can be spread so thin that they can't provide necessary leadership or support. • There may be a lack of coordination or synchronization.

Table 7.2

If hundreds of employees perform the same job, one supervisor may be able to manage a very large number of employees. Such might be the case at a clothing plant, where hundreds of sewing machine operators work from identical patterns. But if employees perform complex and dissimilar tasks, a manager can effectively supervise only a much smaller number. For instance, a supervisor in the research and development area of a pharmaceutical company might oversee just a few research chemists due to the highly complex nature of their jobs.

7.5 Degree of Centralization

5. How can the degree of centralization/decentralization be altered to make an organization more successful?

The optimal span of control is determined by the following five factors:

1. *Nature of the task.* The more complex the task, the narrower the span of control.
2. *Location of the workers.* The more locations, the narrower the span of control.
3. *Ability of the manager to delegate responsibility.* The greater the ability to delegate, the wider the span of control.
4. *Amount of interaction and feedback between the workers and the manager.* The more feedback and interaction required, the narrower the span of control.

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5. *Level of skill and motivation of the workers.* The higher the skill level and motivation, the wider the span of control.

The final component in building an effective organizational structure is deciding at what level in the organization decisions should be made. **Centralization** is the degree to which formal authority is concentrated in one area or level of the organization. In a highly centralized structure, top management makes most of the key decisions in the organization, with very little input from lower-level employees. Centralization lets top managers develop a broad view of operations and exercise tight financial controls. It can also help to reduce costs by eliminating redundancy in the organization. But centralization may also mean that lower-level personnel don't get a chance to develop their decision-making and leadership skills and that the organization is less able to respond quickly to customer demands.

Decentralization is the process of pushing decision-making authority down the organizational hierarchy, giving lower-level personnel more responsibility and power to make and implement decisions. Benefits of decentralization can include quicker decision-making, increased levels of innovation and creativity, greater organizational flexibility, faster development of lower-level managers, and increased levels of job satisfaction and employee commitment. But decentralization can also be risky. If lower-level personnel don't have the necessary skills and training to perform effectively, they may make costly mistakes. Additionally, decentralization may increase the likelihood of inefficient lines of communication, competing objectives, and duplication of effort.

Several factors must be considered when deciding how much decision-making authority to delegate throughout the organization. These factors include the size of the organization, the speed of change in its environment, managers' willingness to give up authority, employees' willingness to accept more authority, and the organization's geographic dispersion.

Decentralization is usually desirable when the following conditions are met:

- The organization is very large, like ExxonMobil, Ford, or General Electric.
- The firm is in a dynamic environment where quick, local decisions must be made, as in many high-tech industries.
- Managers are willing to share power with their subordinates.
- Employees are willing and able to take more responsibility.
- The company is spread out geographically, such as Nordstrom, Caterpillar, or Ford.

As organizations grow and change, they continually reevaluate their structure to determine whether it is helping the company to achieve its goals.

7.6 Trends in Organizational Structure

6. What trends are influencing the way businesses organize?

To improve organizational performance and achieve long-term objectives, some organizations seek to reengineer their business processes or adopt new technologies that open up a variety of organizational design options, such as virtual corporations and virtual teams. Other trends that have strong footholds in today's organizations include outsourcing and managing global businesses.

Reengineering Organizational Structure

Periodically, all businesses must reevaluate the way they do business. This includes assessing the effectiveness of the organizational structure. To meet the formidable challenges of the future, companies are increasingly turning to **reengineering**—the complete redesign of business structures and processes in order to improve operations. An even simpler definition of reengineering is “starting over.” In effect, top management asks, “If we were a new company, how would we run this place?” The purpose of reengineering is to identify and abandon the outdated rules and fundamental assumptions that guide current business operations. Every company has many formal and informal rules, based on assumptions about technology, people, and organizational goals, that no longer hold. Thus, the goal of reengineering is to redesign business processes to achieve improvements in cost control, product quality, customer service, and speed. The reengineering process should result in a more efficient and effective organizational structure that is better suited to the current (and future) competitive climate of the industry.

The Virtual Corporation

One of the biggest challenges for companies today is adapting to the technological changes that are affecting all industries. Organizations are struggling to find new organizational structures that will help them transform information technology into a competitive advantage. One alternative that is becoming increasingly prevalent is the **virtual corporation**, which is a network of independent companies (suppliers, customers, even competitors) linked by information technology to share skills, costs, and access to one another's markets. This network structure allows companies to come together quickly to exploit rapidly changing opportunities. The key attributes of a virtual corporation are:

- **Technology.** Information technology helps geographically distant companies form alliances and work together.

- *Opportunism.* Alliances are less permanent, less formal, and more opportunistic than in traditional partnerships.
- *Excellence.* Each partner brings its core competencies to the alliance, so it is possible to create an organization with higher quality in every functional area and increase competitive advantage.
- *Trust.* The network structure makes companies more reliant on each other and forces them to strengthen relationships with partners.
- *No borders.* This structure expands the traditional boundaries of an organization.

In the concept's purest form, each company that links up with others to create a virtual corporation is stripped to its essence. Ideally, the virtual corporation has neither a central office nor an organization chart, no hierarchy, and no vertical integration. It contributes to an alliance only its core competencies, or key capabilities. It mixes and matches what it does best with the core competencies of other companies and entrepreneurs. For example, a manufacturer would only manufacture, while relying on a product design firm to decide what to make and a marketing company to sell the end result.

Although firms that are purely virtual organizations are still relatively scarce, many companies are embracing several characteristics of the virtual structure. One example is Cisco Systems. Cisco uses many manufacturing plants to produce its products, but the company owns none of them. In fact, Cisco now relies on contract manufacturers for all of its manufacturing needs. Human hands probably touch fewer than 10 percent of all customer orders, with fewer than half of all orders processed by a Cisco employee. To the average customer, the interdependency of Cisco's suppliers and inventory systems makes it look like one huge, seamless company.

Virtual Teams

Technology is also enabling corporations to create virtual work teams. Geography is no longer a limitation when employees are considered for a work team. Virtual teams mean reduced travel time and costs, reduced relocation expenses, and utilization of specialized talent regardless of an employee's location.

When managers need to staff a project, all they need to do is make a list of required skills and a general list of employees who possess those skills. When the pool of employees is known, the manager simply chooses the best mix of people and creates the virtual team. Special challenges of virtual teams include keeping team members focused, motivated, and communicating positively despite their locations. If feasible, at least one face-to-face meeting during the early stages of team formation will help with these potential problems.

Outsourcing

Another organizational trend that continues to influence today's managers is outsourcing. For decades, companies have outsourced various functions. For example, payroll functions such as recording hours, managing benefits and wage rates, and issuing paychecks have been handled for years by third-party providers. Today, however, outsourcing includes a much wider array of business functions: customer service, production, engineering, information technology, sales and marketing, and more.

Historically, companies have outsourced for two main reasons: cost reduction and labor needs. Often, to satisfy both requirements, companies outsource work to firms in foreign countries. In 2017, outsourcing remains a key component of many businesses' operations but is not strictly limited to low-level jobs. Some of the insights highlighted in Deloitte's recent Global Outsourcing Survey bear this out. According to survey respondents from 280 global organizations, outsourcing continues to be successful because it is adapting to changing business environments. According to the survey, outsourcing continues to grow across mature functions such as HR and IT, but it has successfully moved to nontraditional business functions such as facilities management, purchasing, and real estate. In addition, some businesses view outsourcing as a way of infusing their operations with innovation and using it to maintain a competitive advantage—not just as a way to cut costs. As companies increasingly view outsourcing as more than a cost-cutting strategy, they will be expecting more of their vendors in terms of supplying innovation and other benefits.

Another form of outsourcing has become prevalent over the last several years, in part as the result of the slow economic recovery from the global recession of 2007–2009. As many U.S. businesses hesitated to hire full-time workers even as they began to experience gradual growth, some companies began to offer contract work to freelancers, who were not considered full-time employees eligible for company benefits. Known as the *gig economy*, this work approach has advantages and disadvantages. Some gig workers like the independence of being self-employed, while others acknowledge that they are taking on multiple small projects because they can't find full-time work as company employees. Another group of individuals work as full-time employees but may sign up for gigs such as driving for Uber or Lyft to supplement their income. Recent estimates suggest that the gig economy may impact more than one-third of the U.S. workforce over the next few years.

Despite the challenges, outsourcing programs can be effective. To be successful in outsourcing efforts, managers must do the

following:

- Identify a specific business problem.
- Consider all possible solutions.
- Decide whether outsourcing the work is the appropriate answer to the problem.
- Develop a strategic outsourcing partnership with vendors and a solid framework that promotes seamless collaboration and communication.
- Engage with outsourcing partners on a regular basis to instill trust between the two entities.
- Remain flexible when it comes to working with outsourcing providers in terms of accommodating requests or adjusting needs when necessary in an effort to build a long-term strategic partnership beneficial to both parties.

Structuring for Global Mergers

Recent mergers creating mega-firms (such as Microsoft and LinkedIn, Amazon and Whole Foods, and Verizon and Yahoo) raise some important questions regarding corporate structure. How can managers hope to organize the global pieces of these huge, complex new firms into a cohesive, successful whole? Should decision-making be centralized or decentralized? Should the firm be organized around geographic markets or product lines? And how can managers consolidate distinctly different corporate cultures? These issues and many more must be resolved if mergers of global companies are to succeed.

Beyond designing a new organizational structure, one of the most difficult challenges when merging two large companies is uniting the cultures and creating a single business. The merger between Pfizer and Pharmacia, makers of Dramamine and Rogaine, is no exception. Failure to effectively merge cultures can have serious effects on organizational efficiency.

As part of its strategic plan for the giant merger, Pfizer put together 14 groups that would make recommendations concerning finances, human resources, operation support, capital improvements, warehousing, logistics, quality control, and information technology. An outside consultant was hired to facilitate the process. One of the first tasks for the groups was to deal with the conqueror (Pfizer) versus conquered (Pharmacia) attitudes. Company executives wanted to make sure all employees knew that their ideas were valuable and that senior management was listening.

As more and more global mergers take place, sometimes between the most unlikely suitors, companies must ensure that the integration plan includes strategies for dealing with cultural differences, establishing a logical leadership structure, implementing a strong two-way communications channel at all levels of the organization, and redefining the “new” organization’s vision, mission, values, and culture.