6 Organizing the Business

A New Chinese-American Recipe For Success

Lenovo was started by Chinese entrepreneur Liu Chuanzhi in 1984. The firm dabbled in a variety of high-tech industries before it began to focus on the personal computer market. Initially Lenovo made computers for other firms, most notably AST Research. In 1990, though, the firm launched its own brand of PC and by 1997 Lenovo was the top selling PC company in its home country. Unfortunately, the company was not very successful in getting its computers accepted outside of China. One reason for this was the lack of brand recognition. Another was that Lenovo simply did not have very many top managers with global experience. Hence, they did not really understand foreign markets or how to penetrate them.

But that began to change in 2005. During the early 2000s IBM, one of the world's most recognized computer companies, was developing a new strategy emphasizing informational technology and business services and concentrating on business clients. IBM also felt that PCs were dropping in price so quickly that reasonable profit margins would be difficult to maintain. When the company finally decided to sell its PC operation in 2005, Lenovo was quick to jump on the opportunity and bought IBM's PC business for $1.75 billion. Lenovo was allowed to continue using the IBM name through 2007 but then began to brand all of its PCs with the Lenovo name.

After reading this chapter, you should be able to:

1. **Discuss the factors that influence a firm's organizational structure.**
2. **Explain specialization and departmentalization as two of the building blocks of organizational structure.**
3. **Describe centralization and decentralization, delegation, and authority as the key ingredients in establishing the decision-making hierarchy.**
4. **Explain the differences among functional, divisional, matrix, and international organizational structures and describe the most popular new forms of organizational design.**
5. **Describe the informal organization and discuss intrapreneuring.**

Along with the PC business itself, Lenovo also got another extremely important asset—a team of skilled top managers well-versed in global PC markets. Senior IBM executives were integrated into the top management structure and one of them, Stephen Ward, was appointed CEO of Lenovo. Chuanzhi, meanwhile, moved into the background but remained a director. But almost from the start problems began to surface. Ward, for example, was extremely autocratic in how he made decisions and this alienated his new Chinese colleagues. And at a more general level, the U.S. managers tried to impose a rigid, centralized, and bureaucratic structure on the new Lenovo. The Chinese, meanwhile, were highly resistant to these efforts, strongly preferring the more traditional consensus-style structure that they had used previously.

Within a matter of months things came to a head. Among other changes, Ward was pushed

WHAT'S IN IT FOR ME?

Lenovo has been undergoing changes over the past several years, most of them aimed at improving the organization's structure. As a result, people who work for Lenovo have had to continually work to understand their "place" in the organization. By understanding the material in this chapter, you'll also be prepared to understand your "place" in the organization that employs you. Similarly, as a boss or owner, you'll be better equipped to create the optimal structure for your own organization.

This chapter examines factors that influence a firm's organizational structure. We discuss the building blocks of organizational structure as well as the differences between decision making in different types of organizations. Along the way, we look at a variety of organizational structures and describe the most popular new forms of organizational design.

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QILAI SHEN/EPA/Newscom

out and replaced with William Amelio, a senior executive recruited from Dell Computer Asia/Pacific operations. Amelio expressed an interest in trying to move Lenovo back toward the traditional Chinese structure. He also thought that the firm could benefit from an infusion of additional perspectives, so he began to aggressively recruit new executives from other international high-tech firms. His Chinese colleagues, meanwhile, took a wait-and-see attitude.[1]

Our opening story continues on page 158.

1 Discuss the factors that influence a firm's organizational structure.

What Is Organizational Structure?

One key decision that business owners and managers must address is how best to structure their organization. Stated differently, they must decide on an appropriate organizational structure. We can define **organizational structure** as the specification of the jobs to be done within an organization and the ways in which those jobs relate to one another.[2] Perhaps the easiest way to understand structure is in terms of an *organization chart.*

Organization Charts

Most businesses prepare **organization charts** to clarify structure and to show employees where they fit into a firm's operations. Figure 6.1 is an organization chart for Contemporary Landscape Services, a small but thriving business in Bryan, Texas. Each box in the chart represents a job. The solid lines define the **chain of command**, or *reporting relationships,* within the company. For example, the retail shop, nursery, and landscape operations managers all report to the owner and president, Mark Ferguson. Within the landscape operation is one manager for residential accounts and another for commercial accounts. Similarly, there are other managers in the retail shop and the nursery.

The organization charts of large firms are far more complex and include individuals at many more levels than those shown in Figure 6.1. Size prevents many large firms from even having charts that include all their managers. Typically, they create one organization chart showing overall corporate structure, separate charts for each division, and even more charts for individual departments or units.

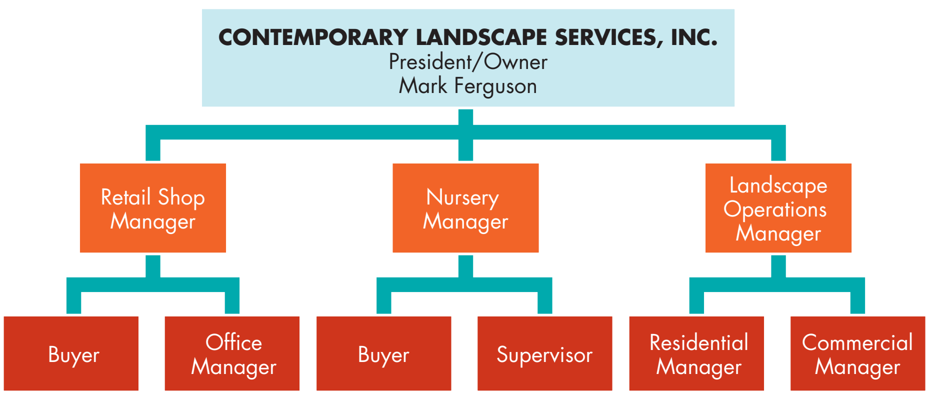

Figure 6.1 The Organization Chart

Recall our definition of organizational structure: the specification of the jobs to be done within an organization and the ways in which those jobs relate to one another. The boxes in the organization chart represent the jobs, and the lines connecting the boxes show how the jobs are related. As we will see, however, even though organizational structure can be broken down into a series of boxes and lines, virtually no two organizations will have the same structure. What works for Texas Instruments will not work for Google, Shell Oil, Amazon.com, or the U.S. Department of Justice. Likewise, the structure of the American Red Cross will probably not work for Urban Outfitters, Union Carbide, Starbucks, or the University of Minnesota.

Determinants of Organizational Structure

How is an organization's structure determined? Ideally, managers carefully assess a variety of important factors as they plan for and then create an organizational structure that will allow their organization to function efficiently.

Many factors play a part in determining an organization's optimal structure. Chief among them are the organization's *mission* and *strategy.* A dynamic and rapidly growing business, for example, needs an organizational structure that allows it to be flexible, to respond to changes in its environment and strategy, and to grow. A stable organization with only modest growth goals and a more conservative strategy will most likely function best with a different organizational structure.

Size of the company and aspects of the organization's environment also affect organizational structure. As we saw in Chapter 5, organizing is a key part of the management process. As such, it must be conducted with an equal awareness of both a firm's external and internal environments. A large manufacturer operating in a strongly competitive environment—for example, American Airlines or Hewlett-Packard—requires a different organizational structure than a local barbershop or video store. Even after an organizational structure has been created, it is rarely free from tinkering—or even outright re-creation. Most organizations change their structures on an almost continuing basis.

Since it was first incorporated in 1903, Ford Motor Company has undergone literally dozens of major structural changes, hundreds of moderate changes, and thousands of minor changes. In the last twenty years alone, Ford has initiated several major structural changes. In 1994, for instance, the firm announced a major restructuring plan called Ford 2000, which was intended to integrate all of Ford's vast international operations into a single, unified structure by the year 2000.

By 1998, however, midway through implementation of the grand plan, top Ford executives announced major modifications, indicating that (1) additional changes would be made, (2) some previously planned changes would not be made, and (3) some recently realigned operations would be changed again. In early 1999, managers announced another set of changes intended to eliminate corporate bureaucracy, speed decision making, and improve communication and working relationships among people at different levels of the organization. Early in 2001, Ford announced yet more sweeping changes intended to boost the firm's flagging bottom line and stem a decline in product quality. More significant changes followed in both 2003 and 2004, and in 2006, the firm announced several plant closings, resulting in even more changes. Not surprisingly, yet another major reorganization was announced in 2010 as the firm sought to deal with a global recession and a major slump in automobile sales.[3] And in 2011 the firm announced even more restructuring in order to gain more international market share.[4]

Organizational Structure specification of the jobs to be done within an organization and the ways in which they relate to one another

Organization Chart diagram depicting a company's structure and showing employees where they fit into its operations

Chain of Command reporting relationships within a company

2 Explain specialization and departmentalization as two of the building blocks of organizational structure.

The Building Blocks of Organizational Structure

The first step in developing the structure of any business, large or small, involves three activities:

1. *Specialization.* Determining who will do what
2. *Departmentalization.* Determining how people performing certain tasks can best be grouped together
3. *Establishment of a Decision-Making Hierarchy.* Deciding who will be empowered to make which decisions and who will have authority over others

These three activities are the building blocks of all business organizations. In this section, we discuss specialization and departmentalization. Because the decision-making hierarchy actually includes several elements, we cover it in more detail in the next section.

Specialization

The process of identifying the specific jobs that need to be done and designating the people who will perform them leads to **job specialization**. In a sense, all organizations have only one major job, such as making cars (Ford), selling finished goods to consumers (Lenova), or providing telecommunications services (Verizon). Usually, that job is more complex in nature. For example, the job of Chaparral Steel is converting scrap steel (such as wrecked automobiles) into finished steel products (such as beams and reinforcement bars).

To perform this one overall job, managers actually break it down, or specialize it, into several smaller jobs. Thus, some workers transport the scrap steel to the company's mill in Midlothian, Texas. Others operate shredding equipment before turning raw materials over to the workers who then melt them into liquid form. Other specialists oversee the flow of the liquid into molding equipment, where it is transformed into new products. Finally, other workers are responsible for moving finished products to a holding area before they are shipped out to customers. When the overall job of the organization is broken down like this, workers can develop real expertise in their jobs, and employees can better coordinate their work with that done by others.

Specialization and Growth In a very small organization, the owner may perform every job. As the firm grows, however, so does the need to specialize jobs so that others can perform them. To see how specialization can evolve in an organization, consider the case of the Walt Disney Company. When Walt Disney first opened his animation studio, he and his brother Roy did everything. For example, when they created their very first animated feature, *Steamboat Willy*, they wrote the story, drew the pictures, transferred the pictures to film, provided the voices, and went out and sold the cartoon to theater operators.

Today, however, a Disney animated feature is made possible only through the efforts of hundreds of people. The job of one animator may be to create the face of a single character throughout an entire feature. Another artist may be charged with coloring background images in certain scenes. People other than artists are responsible for the subsequent operations that turn individual computer-generated images into a moving picture or for the marketing of the finished product.

Job specialization is a natural part of organizational growth. It also has certain advantages. For example, specialized jobs are learned more easily and can be performed more efficiently than nonspecialized jobs, and it is also easier to replace people who leave an organization if they have highly specialized jobs. However, jobs at lower levels of the organization are especially susceptible to overspecialization. If such jobs become too narrowly defined, employees may become bored and careless, derive less satisfaction from their jobs, and lose sight of their roles in the organization.


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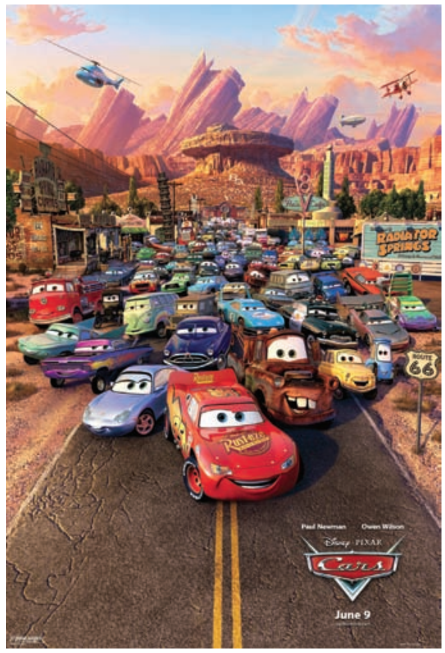

AF archive/Alamy

When Walt Disney was just starting out, he did most of the work on his animated features all by himself. But today's features like Disney's 2011 hit *Cars II* require the work of hundreds of people.

Departmentalization

After jobs are specialized, they must be grouped into logical units, which is the process of **departmentalization**. Departmentalized companies benefit from this division of activities: Control and coordination are narrowed and made easier, and top managers can see more easily how various units are performing.

Departmentalization allows the firm to treat each department as a **profit center**—a separate company unit responsible for its own costs and profits. Thus, Sears can calculate the profits it generates from men's clothing, appliances, home furnishings, and every other department within a given store separately. Managers can then use this information in making decisions about advertising and promotional events, space allocation, budgeting, and so forth.

Managers do not departmentalize jobs randomly. They group them logically, according to some common thread or purpose. In general, departmentalization may occur along *product*, *process*, *functional*, *customer*, or *geographic* lines (or any combination of these).

Product Departmentalization

Manufacturers and service providers often opt for **product departmentalization**—dividing an organization according to the specific product or service being created. Kraft Foods uses this approach to divide departments: for example, the Oscar Mayer division focuses on hot dogs and lunch meats, the Kraft Cheese division focuses on cheese products, the Maxwell House and Post division focus on coffee and breakfast cereal, respectively, and so on.[5] Because each division represents a defined group of products or services, managers at Kraft Foods are able—in theory—to focus on *specific* product lines in a clear and defined way.

Process Departmentalization

Other manufacturers favor **process departmentalization**, in which the organization is divided according to production processes used to create a good or service. This principle is logical for Vlasic, which has three separate departments to transform cucumbers into either fresh-packed pickles, pickles cured in brine, or relishes. Cucumbers destined to become fresh-packed pickles

Job Specialization the process of identifying the specific jobs that need to be done and designating the people who will perform them

Departmentalization process of grouping jobs into logical units

Profit Center separate company unit responsible for its own costs and profits

Product Departmentalization dividing an organization according to specific products or services being created

Process Departmentalization dividing an organization according to production processes used to create a good or service must be packed into jars immediately, covered with a solution of water and vinegar, and prepared for sale. Those slated to be brined pickles must be aged in brine solution before packing. Relish cucumbers must be minced and combined with a host of other ingredients. Each process requires different equipment and worker skills, and different departments were created for each.

Functional Departmentalization Many service and manufacturing companies, especially smaller ones, use **functional departmentalization** to develop departments according to a group's functions or activities. Such firms typically have production, marketing and sales, human resources, and accounting and finance departments. Departments may be further subdivided. For example, the marketing department might be divided into separate staffs for market research and advertising.

Customer Departmentalization Retail stores actually derive their generic name—department stores—from the manner in which they are structured—a men's department, a women's department, a luggage department, a lawn and garden department, and so on. Each department targets a specific customer category (men, women, people who want to buy luggage, people who want to buy a lawn mower) by using **customer departmentalization** to create departments that offer products, and meet the needs of, identifiable customer groups. Thus, a customer shopping for a baby's playpen at Sears can bypass lawn and garden supplies and head straight for children's furniture. In general, the store is more efficient, and customers get better service because salespeople tend to specialize and gain expertise in their departments. Another illustration of customer departmentalization is reflected in most banks. A customer wanting a consumer loan goes to the retail banking office, whereas a small business owner goes to the commercial banking office.

Geographic Departmentalization **Geographic departmentalization** divides firms according to the areas of the country or the world that they serve. Levi Strauss, for instance, has one division for North and South America; one for Europe, the Middle East, and North Africa; and one for the Asia Pacific region.[6] Within the United States, geographic departmentalization is common among utilities. For example, Southern Company organizes its power subsidiaries into four geographic departments—Alabama, Georgia, Gulf, and Mississippi Power.[7]

Multiple Forms of Departmentalization Because different forms of departmentalization have different advantages, as firms grow in size they tend to adopt different types of departmentalization for various levels. The company illustrated in Figure 6.2 uses functional departmentalization at the top level. At the middle level,

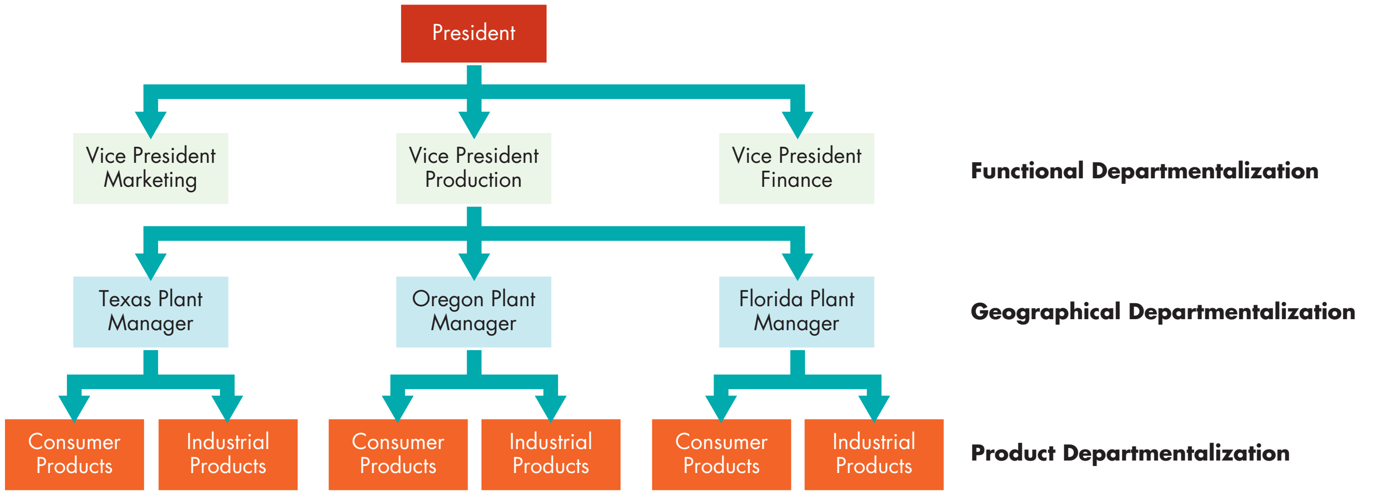

Figure 6.2 Multiple Forms of Departmentalization

MANAGING IN TURBULENT TIMES

Force-feeding the Market

Some business crises hit quickly, like the 2008–2010 recession. Others come more slowly. PepsiCo is facing one of the slow kind but is taking rapid action to turn things around. For years, consumption of soft drinks has been slowly declining. Driven primarily by health concerns, consumers in most countries are simply drinking fewer cans and bottles of the stuff. While there are no-sugar versions available, of course, Pepsi and Coke just don't taste quite the same when preceded by the word "Diet." Pepsi, for instance, shipped about 1 billion cases of soft drinks in 2007, down 20 percent from 2000.

To compensate, PepsiCo has been heavily promoting its juice, bottled water, and fruity soda brands. But the 2008–2010 recession took its toll on those products as well. PepsiCo CEO Indra Nooyi knew action was needed, so she promoted Massimo F. d'Amore to the position of CEO of PepsiCo Americas Beverages and gave him a mandate: Get the beverage business back on track.

Richard Levine/Alamy

d'Amore, in turn, decided to use organization structure as the primary driver to fix things. When he took over, the three major brands at PepsiCo Americas Beverages were Pepsi, Gatorade, and Tropicana—each operating as an independent division. d'Amore concluded that this independence was actually a problem in that the three brands were competing for the same resources, that there was too little coordination between the divisions, and that all too often, market information that should have been communicated across the divisions was instead treated as proprietary and not shared with others.

To help offset these problems, d'Amore created one large operating division for all three of the major brands, as well as four others. This move rankled some key executives, who saw it as a reduction in their own power, and a few left the company. But d'Amore stuck to his guns and has maintained this new structure. He believes that a unified and coordinated approach to brand management will be the key that revives growth at PepsiCo Americas Beverages and will help the firm establish increased market share across all product lines and in all markets the unit serves. And if he is right, he will also have staked a major claim as Indra Nooyi's successor when she decides it's time to step down.[8]

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production is divided along geographic lines. At a lower level, marketing is departmentalized by product group. Larger firms are certain to use all of these different forms of departmentalization in various areas.

Establishing the Decision-Making Hierarchy

3 Describe centralization and decentralization, delegation, and authority as the key ingredients in establishing the decision-making hierarchy.

The third major building block of organizational structure is the establishment of a decision-making hierarchy. This is usually done by formalizing reporting relationships. When the focus is on the reporting relationships among individual managers

Functional Departmentalization dividing an organization according to groups' functions or activities

Customer Departmentalization dividing an organization to offer products and meet needs for identifiable customer groups

Geographic Departmentalization dividing an organization according to the areas of the country or the world served by a business and the people who report to them, it is most commonly referred to as *delegation.* However, when the focus is on the overall organization, it becomes a question of *decentralization* versus *centralization.*

Distributing Authority: Centralization and Decentralization

Some managers make the conscious decision to retain as much decision-making authority as possible at the higher levels of the organizational structure; others decide to push authority as far down the hierarchy as possible. While we can think of these two extremes as anchoring a continuum, most companies fall somewhere between the middle of such a continuum and one end point or the other.

Centralized Organizations

In a **centralized organization**, most decision-making authority is held by upper-level managers.[9] McDonald's practices centralization as a way to maintain standardization. All restaurants must follow precise steps in buying products and making and packaging menu items. Most advertising is handled at the corporate level, and any local advertising must be approved by a regional manager. Restaurants even have to follow prescribed schedules for facilities' maintenance and upgrades like floor polishing and parking lot cleaning. Centralized authority is most commonly found in companies that face relatively stable and predictable environments and is also typical of small businesses.

Decentralized Organizations

As a company gets larger, more decisions must be made; thus, the company tends to adopt **decentralized organization**, in which much decision-making authority is delegated to levels of management at various points below the top. Decentralization is typical in firms that have complex and dynamic environmental conditions. It makes a company more responsive by allowing managers more discretion to make quick decisions in their areas of responsibility. For example, Urban Outfitters practices relative decentralization in that it allows individual store managers considerable discretion over merchandising and product displays. Whole Foods Market takes things even further in its decentralization. Stores are broken up into small teams, which are responsible for making decisions on issues such as voting on which new staff members to hire and which products to carry based on local preferences. This practice taps into the idea that the people who will be most affected by decisions should be the ones making them.[10]

Tall and Flat Organizations

Decentralized firms tend to have relatively fewer layers of management, resulting in a **flat organizational structure** like that of the hypothetical law firm shown in Figure 6.3(a). Centralized firms typically require multiple layers of management and thus **tall organizational structures**, as in the U.S. Army example in Figure 6.3(b). Because information, whether upward or downward bound, must pass through so many organizational layers, tall structures are prone to delays in information flow.

As organizations grow in size, it is both normal and necessary that they become at least somewhat taller. For instance, a small firm with only an owner-manager and a few employees is likely to have two layers—the owner-manager and the employees who report to that person. As the firm grows, more layers will be needed. A manager must ensure that he or she has only the number of layers his or her firm needs. Too few layers can create chaos and inefficiency, whereas too many layers can create rigidity and bureaucracy.

Span of Control

As you can see in Figure 6.3, the distribution of authority in an organization also affects the number of people who work for any individual manager. In a flat organizational structure, the number of people directly managed by one supervisor—the manager's **span of control**—is usually wide. In tall organizations, span of control tends to be narrower. Employees' abilities and the

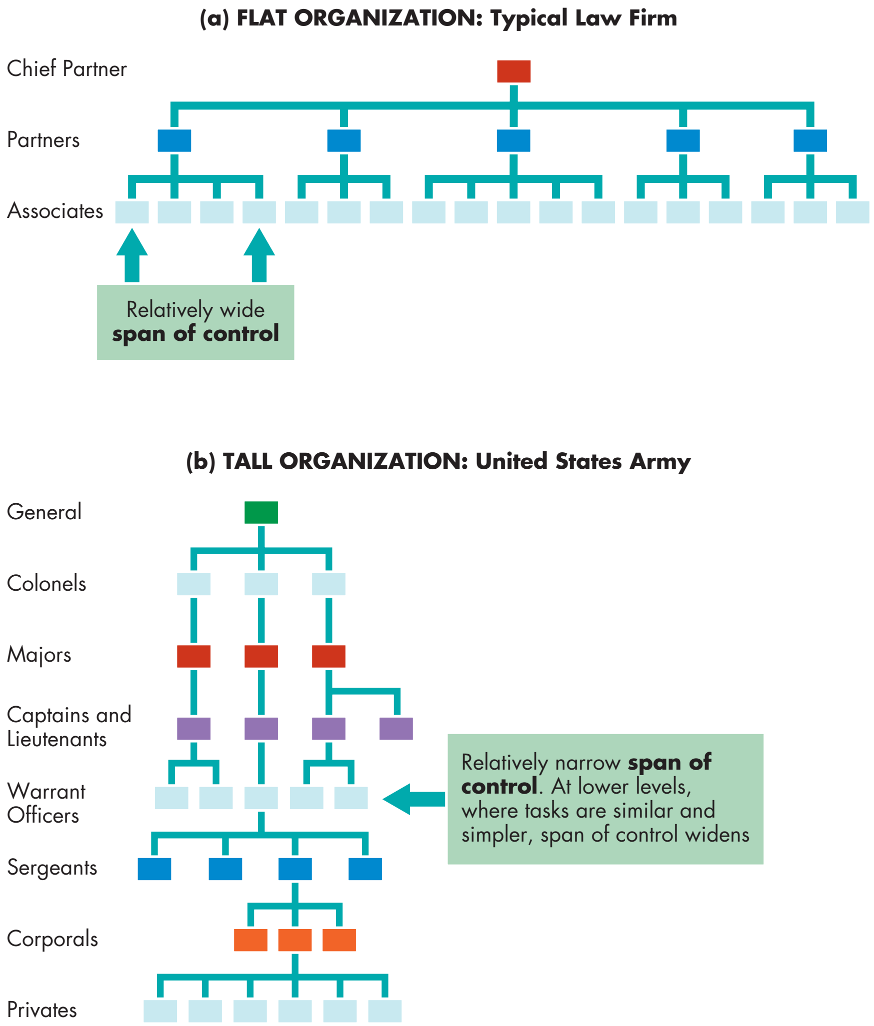

Figure 6.3 Organizational Structures and Span of Control

supervisor's managerial skills influence how wide or narrow the span of control should be, as do the similarity and simplicity of tasks and the extent to which they are interrelated.

If lower-level managers are given more decision-making authority, their supervisors will have less work to do and may then be able to take on a widened span of control. Similarly, when several employees perform either the same simple task or a group of interrelated tasks, a wide span of control is possible and often desirable. For instance, because of the routine and interdependent nature of jobs on an assembly line, one supervisor may well control the entire line.

In contrast, when jobs are more diversified or prone to change, a narrow span of control is preferable. Consider how Electronic Arts develops video games. Design,

Centralized Organization organization in which most decision-making authority is held by upper-level management

Decentralized Organization organization in which a great deal of decision-making authority is delegated to levels of management at points below the top

Flat Organizational Structure characteristic of decentralized companies with relatively few layers of management

Tall Organizational Structure characteristic of centralized companies with multiple layers of management

Span of Control number of people supervised by one manager art, audio, and software development teams have specialized jobs whose products must come together in the end to create a coherent game. Although related, the complexities involved with and the advanced skills required by each job mean that one supervisor can oversee only a small number of employees.

The Delegation Process

Delegation is the process through which a manager allocates work to subordinates. In general, the delegation process involves:

1. Assigning **responsibility**, the duty to perform an assigned task
2. Granting **authority**, or the power to make the decisions necessary to complete the task
3. Creating **accountability**, the obligation employees have for the successful completion of the task

For the delegation process to work smoothly, responsibility and authority must be equivalent. Table 6.1 lists some common obstacles that hinder the delegation process, along with strategies for overcoming them.

Three Forms of Authority

As individuals are delegated responsibility and authority, a complex web of interactions develops in the form of *line*, *staff*, and *committee and team* authorities.

Line Authority The type of authority that flows up and down the chain of command is **line authority**. Most companies rely heavily on **line departments** linked directly to the production and sales of specific products. For example, in the division of Clark Equipment that produces forklifts and small earthmovers, line departments include purchasing, materials handling, fabrication, painting, and assembly (all of which are directly linked to production) along with sales and distribution (both of which are directly linked to sales).

As the doers and producers, each line department is essential to an organization's ability to sell and deliver finished goods. A bad decision by the manager in one department can hold up production for an entire plant. For example, the painting department manager at Clark Equipment changes a paint application on a batch of forklifts, which then show signs of peeling paint. The batch will have to be repainted (and perhaps partially reassembled) before the machines can be shipped.

TABLE 6.1 Learning to Delegate Effectively

I'm afraid to delegate because...	Solution
My team doesn't know how to get the job done.	If members of your team are exhibiting opportunities for improved performance, offer them the training necessary for them to become more effective at their jobs.
I like controlling as many things as possible.	Recognize that trying to accomplish everything yourself while your team does nothing only sets you up for burnout and failure. As you begin to relinquish control, you will come to trust your team more as you watch your team members succeed.
I don't want anyone on my team outperforming me.	High-performing team members are a reflection of your success as a manager. Encourage them to excel, praise them for it, and share the success of *your* team with the rest of the organization.
I don't know how to delegate tasks effectively.	Consider taking a management training course or reading some books on the topic of delegating effectively.

Staff Authority Some companies also rely on **staff authority**, which is based on special expertise and usually involves advising line managers in areas such as law, accounting, and human resources. A corporate attorney, for example, may advise the marketing department as it prepares a new contract with the firm's advertising agency, but will not typically make decisions that affect how the marketing department does its job. **Staff members** help line departments make decisions, but do not usually have the authority to make final decisions.

Typically, the separation between line authority and staff responsibility is clearly delineated and is usually indicated in organization charts by solid lines (line authority) and dotted lines (staff responsibility), as shown in Figure 6.4. It may help to understand this separation by remembering that whereas *staff members* generally provide services to management, *line managers* are directly involved in producing the firm's products.

Committee and Team Authority Recently, more organizations have started to grant **committee and team authority** to groups that play central roles in daily operations. A committee, for example, may consist of top managers from several major areas. If the work of the committee is especially important and if the committee members will be working together for an extended time, the organization may even grant it special authority as a decision-making body beyond the individual authority possessed by each of its members.

At the operating level, many firms today use **work teams** that are empowered to plan, organize, and perform their work with minimal supervision and often

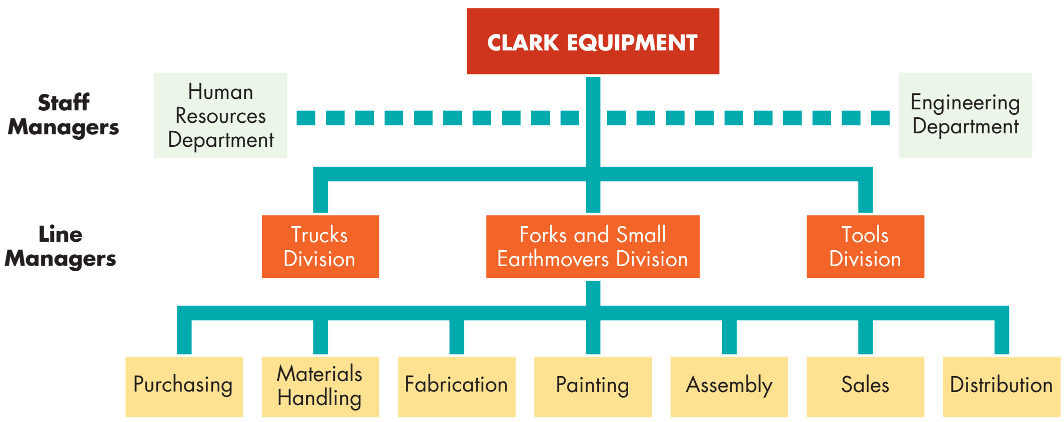

Figure 6.4 Line and Staff Organization

Delegation process through which a manager allocates work to subordinates

Responsibility duty to perform an assigned task

Authority power to make the decisions necessary to complete a task

Accountability obligation employees have to their manager for the successful completion of an assigned task

Line Authority organizational structure in which authority flows in a direct chain of command from the top of the company to the bottom

Line Department department directly linked to the production and sales of a specific product

Staff Authority authority based on expertise that usually involves counseling and advising line managers

Staff Members advisers and counselors who help line departments in making decisions but who do not have the authority to make final decisions

Committee and Team Authority authority granted to committees or teams involved in a firm's daily operations

Work Team groups of operating employees who are empowered to plan and organize their own work and to perform that work with a minimum of supervision with special authority as well. Most U.S. companies today use teams in at least some areas; some make widespread use of teams throughout every area of their operations.

4 **Explain the differences among functional, divisional, matrix, and international organizational structures and describe the most popular new forms of organizational design.**

Basic Forms of Organizational Structure

Organizations can structure themselves in an almost infinite number of ways—according to specialization, for example, or departmentalization, or the decision-making hierarchy. Nevertheless, it is possible to identify four basic forms of organizational structure that reflect the general trends followed by most firms: *functional*, *divisional*, *matrix*, and *international.*

Functional Structure

Under a **functional structure**, relationships between group functions and activities determine authority. Functional structure is used by most small to medium-sized firms, which are usually structured around basic business functions: a marketing department, an operations department, and a finance department. The benefits of this approach include specialization within functional areas and smoother coordination among them.

In large firms, coordination across functional departments becomes more complicated. Functional structure also fosters centralization (which can be desirable, but is usually counter to the goals of larger businesses) and makes accountability more difficult. As organizations grow, they tend to shed this form and move toward one of the other three structures. Figure 6.5 illustrates a functional structure.

Divisional Structure

A **divisional structure** relies on product departmentalization. Organizations using this approach are typically structured around several product-based **divisions** that resemble separate businesses in that they produce and market their own products. The head of each division may be a corporate vice president or, if the organization is large enough, a divisional president. In addition, each division usually has its own identity and operates as a relatively autonomous business under the larger corporate umbrella. Figure 6.6 illustrates a divisional structure.

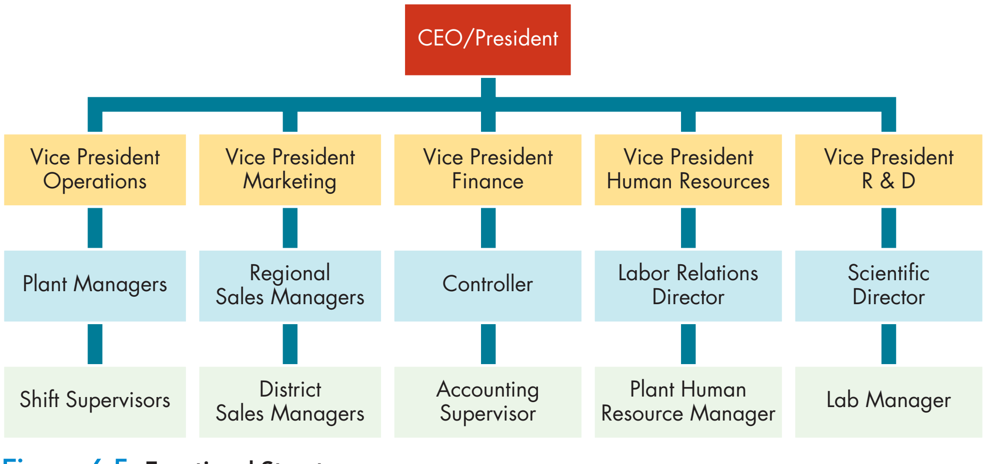

Figure 6.5 **Functional Structure**

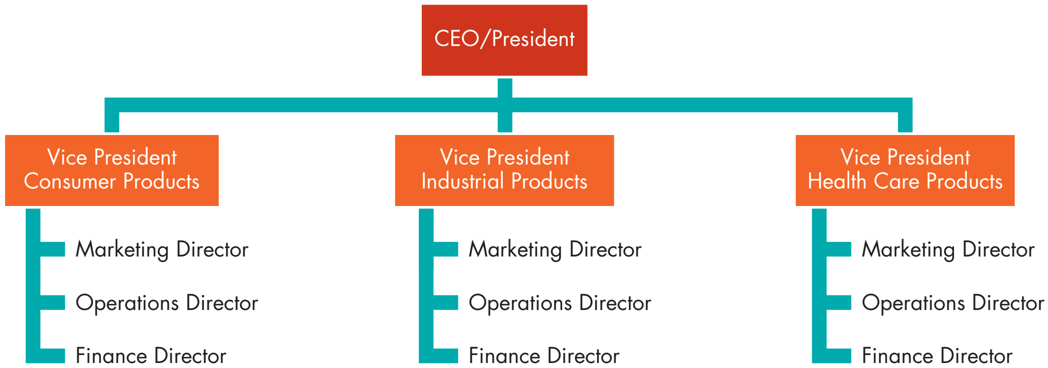

Figure 6.6 **Divisional Structure**

Johnson & Johnson, one of the most recognizable names in health care products, organizes its company into three major divisions: consumer health care products, medical devices and diagnostics, and pharmaceuticals. Each major division is then broken down further. The consumer health care products division relies on product departmentalization to separate baby care, skin and hair care, topical health care, oral health care, women's health, over-the-counter medicines, and nutritionals. These divisions reflect the diversity of the company, which can protect it during downturns, such as the one in 2008–2010, which showed the slowest pharmaceutical growth in four decades. Because they are divided, the other divisions are protected from this blight and can carry the company through it.

Consider that Johnson & Johnson's over-the-counter pain management medicines are competition for their pain management pharmaceuticals. Divisions can maintain healthy competition among themselves by sponsoring separate advertising campaigns, fostering different corporate identities, and so forth. They can also share certain corporate-level resources (such as market research data). However, if too much control is delegated to divisional managers, corporate managers may lose touch with daily operations. Also, competition between divisions can become disruptive, and efforts in one division may duplicate those of another.[11]

Matrix Structure

Sometimes a **matrix structure**—a combination of two separate structures—works better than either simpler structure alone. This structure gets its matrix-like appearance, when shown in a diagram, by using one underlying "permanent" organizational structure (say, the divisional structure flowing up-and-down in the diagram), and then superimposing a different organizing framework on top of it (e.g., the functional form flowing side-to-side in the diagram). This highly flexible and readily adaptable structure was pioneered by NASA for use in developing specific space programs.

Suppose a company using a functional structure wants to develop a new product as a one-time special project. A team might be created and given responsibility for that product. The project team may draw members from existing

Functional Structure organization structure in which authority is determined by the relationships between group functions and activities

Divisional Structure organizational structure in which corporate divisions operate as autonomous businesses under the larger corporate umbrella

Division department that resembles a separate business in that it produces and markets its own products

Matrix Structure organizational structure created by superimposing one form of structure onto another

ENTREPRENEURSHIP AND NEW VENTURES

Making the Grade

In 1965, undistinguished Yale undergrad Fred Smith wrote a paper describing how automated technology necessitated quicker, more reliable transportation. According to legend, the paper received a poor grade. But Smith himself debunks this myth. "It's become a well-known story because everybody likes to flout authority. But to be honest, I don't really remember what grade I got."

Whatever the grade, the idea was a winner. After serving in Vietnam, Smith invested his own money to start the air transport business Federal Express. FedEx, as the firm is now named, was revolutionary in pioneering the hub-and-spoke system and using bar codes, handheld PDAs, and package tracking to compete with the monopolistic U.S. Postal Service.

When rival UPS entered the airfreight segment in 2000, FedEx acquired several key players in the ground transportation industry. "The economics of airplanes are such that we couldn't just keep taking prices down," Smith says. "We finally realized that if we wanted to grow, we had to get into surface transportation." FedEx's new fleet capitalized on the brand's reputation for speed and reliability: "People say 'FedEx this' when they mean 'Get it someplace fast,'" says investor Timothy M. Ghriskey. "No one says 'UPS this.'"

Although standardization is important, FedEx's commitment to decentralization breeds innovation. Managers are encouraged and rewarded for questioning, challenging, and developing new ideas, which are always given serious consideration. Developments have included teaming up with Motorola and Microsoft to create a proprietary pocket-size PC, sending package information to cell phones, and creating software products for small business logistics. "Engage in constant change," is a mantra for CEO Smith, and he adds, "Companies that don't take risks—some of which are going to work and some of which aren't—are going to end up getting punched up by the marketplace."[12]

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Caro/Alamy

functional departments, such as finance and marketing, so that all viewpoints are represented as the new product is being developed; the marketing member may provide ongoing information about product packaging and pricing issues, for instance, and the finance member may have useful information about when funds will be available.

In some companies, the matrix organization is a temporary measure installed to complete a specific project and affecting only one part of the firm. In these firms, the end of the project usually means the end of the matrix—either a breakup of the team or a restructuring to fit it into the company's existing line-and-staff structure. Ford, for example, uses a matrix organization to design new models, such as the newest Mustang. A design team composed of people with engineering, marketing, operations, and finance expertise was created to design the new car. After its work was done, the team members moved back to their permanent functional jobs.

In other settings, the matrix organization is a semipermanent fixture. Figure 6.7 shows how Martha Stewart Living Omnimedia has created a permanent matrix organization for its lifestyle business. As you can see, the company is organized broadly into media and merchandising groups, each of which has specific product and product groups. For instance, there is an Internet group housed within the media group. Layered on top of this structure are teams of

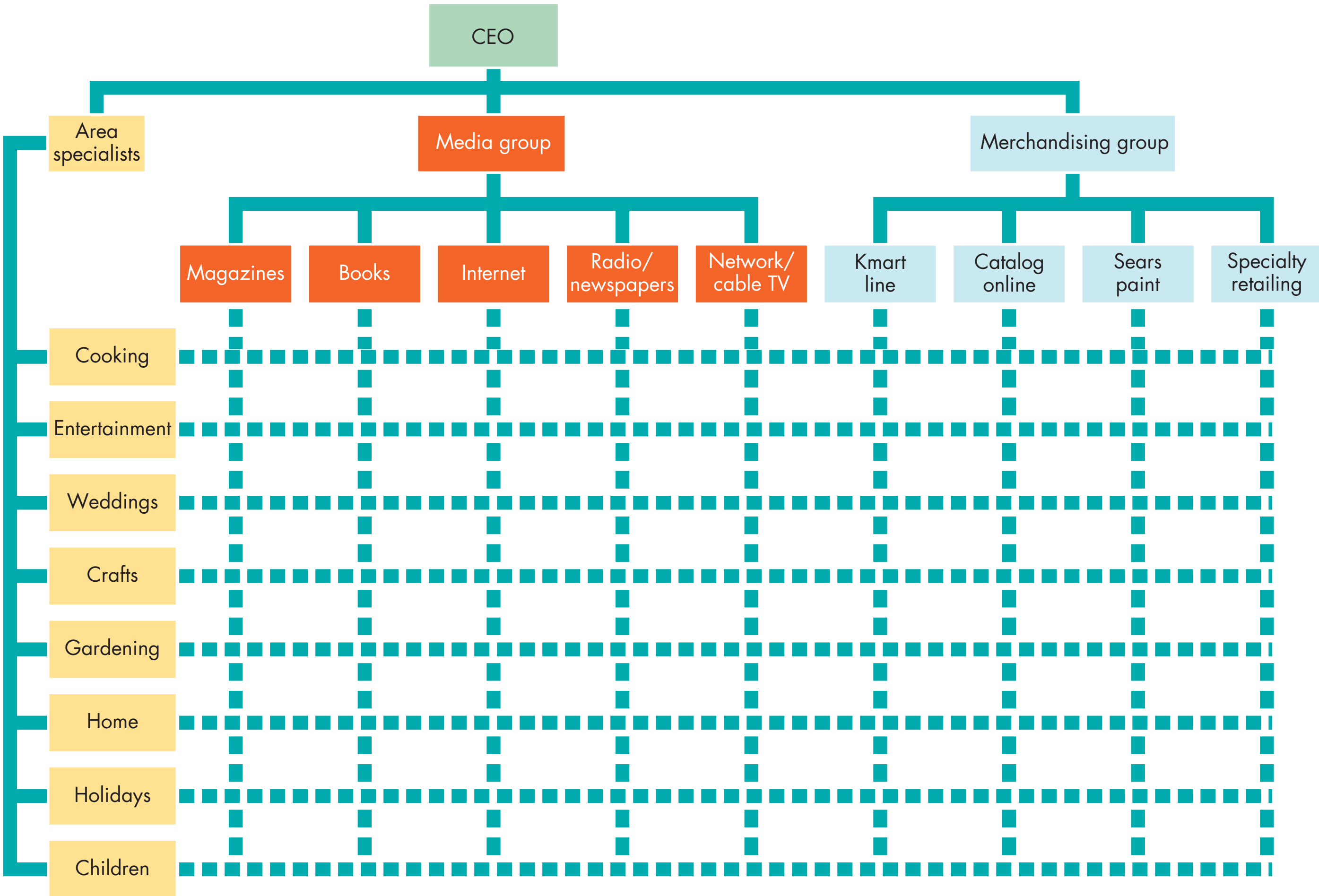

Figure 6.7 **Matrix Organization of Martha Stewart Living Omnimedia**

lifestyle experts led by area specialists organized into groups, such as cooking, entertainment, weddings, crafts, and so forth. Although each group targets specific customer needs, they all work, as necessary, across all product groups. An area specialist in weddings, for example, might contribute to an article on wedding planning for an Omnimedia magazine, contribute a story idea for an Omnimedia cable television program, and supply content for an Omnimedia site. This same individual might also help select fabrics suitable for wedding gowns that are to be retailed.

International Structure

Several different **international organizational structures** have emerged in response to the need to manufacture, purchase, and sell in global markets.

For example, when Wal-Mart opened its first store outside the United States in 1992, it set up a special projects team. In the mid-1990s, the firm created a small international department to handle overseas expansion. By 1999 international sales

International Organizational Structures approaches to organizational structure developed in response to the need to manufacture, purchase, and sell in global markets and expansion had become such a major part of operations that a separate international division headed up by a senior vice president was created. By 2002, international operations had become so important that the international division was further divided into geographic areas, such as Mexico and Europe. And as the firm expands into more foreign markets, such as Russia and India, new units are created to oversee those operations.[13]

Some companies adopt a truly global structure in which they acquire resources (including capital), produce goods and services, engage in research and development, and sell products in whatever local market is appropriate, without consideration of national boundaries. Until a few years ago, General Electric (GE) kept its international business operations as separate divisions, as illustrated in Figure 6.8. Now, however, the company functions as one integrated global organization. GE businesses around the world connect and interact with each other constantly, and managers freely move back and forth among them. This integration is also reflected in GE's executive team, which includes executives from Spain, Japan, Scotland, Ireland, and Italy.[14]

Organizational Design for the Twenty-first Century

As the world grows increasingly complex and fast-paced, organizations also continue to seek new forms of organization that permit them to compete effectively. Among the most popular of these new forms are the *team organization*, the *virtual organization*, and the *learning organization.*

Team Organization *Team organization* relies almost exclusively on project-type teams, with little or no underlying functional hierarchy. People float from project to project as dictated by their skills and the demands of those projects. As the term suggests, team authority is the underlying foundation of organizations that adopt this organizational structure.

Virtual Organization Closely related to the team organization is the *virtual organization.* A virtual organization has little or no formal structure. Typically, it has only a handful of permanent employees, a very small staff, and a modest administrative facility. As the needs of the organization change, its managers bring in temporary workers, lease facilities, and outsource basic support services to meet the demands of each unique situation. As the situation changes, the temporary workforce changes in parallel, with some people leaving the organization and others entering. Facilities and the subcontracted services also change. In other words, the virtual organization exists only in response to its own needs.[15] This structure would be applicable to research or consulting firms that hire consultants based on the specific content knowledge required by each unique project. As the projects change, so too does the composition of the organization. Figure 6.9 illustrates a hypothetical virtual organization.

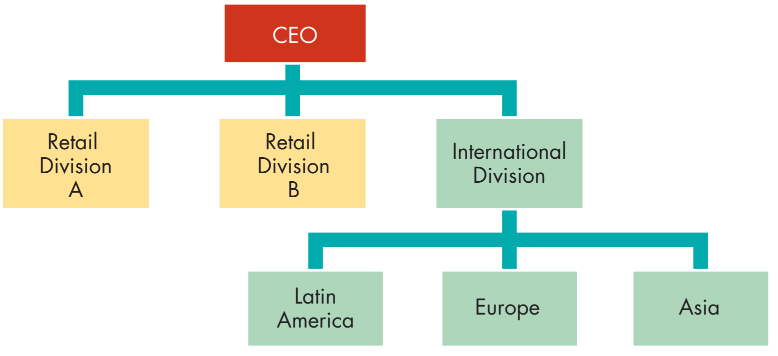

Figure 6.8 International Division Structure

Figure 6.9 The Virtual Organization

Learning Organization The so-called *learning organization* works to integrate continuous improvement with continuous employee learning and development. Specifically, a learning organization works to facilitate the lifelong learning and personal development of all of its employees while continually transforming itself to respond to changing demands and needs.

While managers might approach the concept of a learning organization from a variety of perspectives, the most frequent goals are superior quality, continuous improvement, and performance measurement. The idea is that the most consistent and logical strategy for achieving continuous improvement is to constantly upgrade employee talent, skill, and knowledge. For example, if each employee in an organization learns one new thing each day and can translate that knowledge into work-related practice, continuous improvement will logically follow. Indeed, organizations that wholeheartedly embrace this approach believe that only through constant employee learning can continuous improvement really occur. Shell Oil's Shell Learning Center boasts state-of-the-art classrooms and instructional technology, lodging facilities, a restaurant, and recreational amenities. Line managers rotate through the center to fulfill teaching assignments, and Shell employees routinely attend training programs, seminars, and related activities.

Informal Organization

5 Describe the informal organization and discuss intrapreneuring.

The structure of a company, however, is by no means limited to the *formal organization* as represented by the organization chart and the formal assignment of authority. Frequently, the **informal organization**—everyday social interactions among employees that transcend formal jobs and job interrelationships—effectively alters

Informal Organization network, unrelated to the firm's formal authority structure, of everyday social interactions among company employees a company's formal structure.[16] This level of organization is sometimes just as powerful—if not more powerful—than the formal structure. In 2005, Hewlett-Packard fired its CEO, Carly Fiorina. Much of the discussion that led to her firing took place outside formal structural arrangements in the organization—members of the board of directors, for example, held secret meetings and reached confidential agreements among themselves before Fiorina's future with the company was addressed in a formal manner.[17]

On the negative side, the informal organization can reinforce office politics that put the interests of individuals ahead of those of the firm and can disseminate distorted or inaccurate information. For example, if the informal organization is highlighting false information about impending layoffs, valuable employees may act quickly (and unnecessarily) to seek other employment.

Informal Groups

Informal groups are simply groups of people who decide to interact among themselves. They may be people who work together in a formal sense or who just get together for lunch, during breaks, or after work. They may talk about business, the boss, or nonwork-related topics like families, movies, or sports. Their impact on the organization may be positive (if they work together to support the organization), negative (if they work together in ways that run counter to the organization's interests), or irrelevant (if what they do is unrelated to the organization).

Organizational Grapevine

The **grapevine** is an informal communication network that can run through an entire organization. Grapevines are found in all organizations except the very smallest, but they do not always follow the same patterns as formal channels of authority and communication, nor do they necessarily coincide with them. Because the grapevine typically passes information orally, such information often becomes distorted in the process.

Attempts to eliminate the grapevine are fruitless, but, fortunately, managers do have some control over it. By maintaining open channels of communication and responding vigorously to inaccurate information, they can minimize the damage the grapevine can cause. The grapevine can actually be an asset. By getting to know the key people in the grapevine, for example, the manager can partially control the information they receive and use the grapevine to sound out employee reactions to new ideas (for example, a change in human resource policies or benefit packages). The manager can also get valuable information from the grapevine and use it to improve decision making.

Intrapreneuring

Good managers recognize that the informal organization exists whether they want it or not and can use it not only to reinforce the formal organization, but also to harness its energy to improve productivity.

Many firms, including Rubbermaid, 3M, and Xerox, support **intrapreneuring**—creating and maintaining the innovation and flexibility of a small-business environment within a large, bureaucratic structure. Historically, most innovations have come from individuals in small businesses. As businesses increase in size, however, innovation and creativity tend to become casualties in the battle for more sales and profits. In some large companies, new ideas are even discouraged, and champions of innovation have been stalled in midcareer. At Lockheed Martin, the Advanced Development Programs (ADP) encourages intrapreneurship in the tradition of Skunk Works, a legendary team developed in 1943 as engineer Kelly Johnson's response to Lockheed's need for a powerful jet fighter. Johnson's innovative organization approach broke all the rules, and not only did it work, but it also taught Lockheed the value of encouraging that kind of thinking.[18]

Grapevine informal communication network that runs through an organization

Intrapreneuring process of creating and maintaining the innovation and flexibility of a small-business environment within the confines of a large organization

QILAI SHEN/EPA/Newscom

Continued from page 140

Tweaking the Recipe

William Amelio's efforts at Lenovo yielded mixed results. He led the development of a sophisticated and long-term international strategy that is still being followed today. He also successfully integrated numerous divisions and functions between the old IBM unit and Lenovo. But there were also major problems. For one thing, Lenovo began to lose market share. Its new products were not well received in the marketplace, and profits began to drop. Internal conflict also became more significant, with the old-guard IBM executives in one camp, the Chinese executives who grew up in Lenovo in a different camp, and the newly recruited executives from other firms in still a third camp.

Finally, in 2010 Liu Chuanzhi decided that he had to take action. He pushed Amelio to resign and took control of the firm himself. He then quickly restructured the upper ranks of Lenovo to fall more in line with the traditional Chinese approach. Under Amelio's U.S.-style approach, the CEO had made most of the major decisions and then worked with business unit heads to execute them. Chuanzhi, though, formed the eight top managers at Lenovo into a close-knit team and then they all worked together to make decisions and formulate plans.

Right now it's too soon to know if the changes at Lenovo will improve its fortunes or not. But Chuanzhi believes that his new approach, which he calls a blend of old Chinese thinking and modern global thinking, will soon carry the day.

QUESTIONS FOR DISCUSSION

1. Identify as many examples related to organization structure as possible in this case.
2. The case illustrates how culture might affect structure in different countries. If Lenovo established a major division in the United States, do you think its structure should be closer to the Chinese model or the U.S. model? Why?
3. Research Lenovo's current performance relative to the performance of HP and Dell and comment on how well Chuanzhi's plans seem to be working.
4. Ask ten of your friends not enrolled in this course if they are familiar with the Lenovo brand. What are the implications of your findings?

SUMMARY OF LEARNING OBJECTIVES

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1. **Discuss the factors that influence a firm's organizational structure. (pp. 140–141)**
   Each organization must develop an appropriate *organizational structure*—the specification of the jobs to be done and the ways in which those jobs relate to one another. Most organizations change structures almost continuously. Firms prepare *organization charts* to clarify structure and to show employees where they fit into a firm's operations. Each box represents a job, and solid lines define the *chain of command*, or *reporting relationships*. The charts of large firms are complex and include individuals at many levels. Because size prevents them from charting every manager, they may create single organization charts for overall corporate structure and separate charts for divisions.

2. **Explain specialization and departmentalization as two of the building blocks of organizational structure. (pp. 142–145)**
   The process of identifying specific jobs and designating people to perform them leads to *job specialization.* After they're specialized, jobs are grouped into logical units—the process of *departmentalization.* Departmentalization follows one (or any combination) of five forms: (1) *product departmentalization*, (2) *process departmentalization*, (3) *functional departmentalization*, (4) *customer departmentalization*, or (5) *geographic departmentalization.* Larger companies take advantage of different types of departmentalization for various levels.

3. **Describe centralization and decentralization, delegation, and authority as the key ingredients in establishing the decision-making hierarchy. (pp. 145–150)**
   After jobs have been specialized and departmentalized, firms establish decision-making hierarchies. One major issue addressed through the creation of the decision-making hierarchy involves whether the firm will be relatively *centralized* or relatively *decentralized.* Centralized authority systems typically require multiple layers of management and thus *tall organizational structures.* Decentralized firms tend to have relatively fewer layers of management, resulting in a *flat organizational structure. Delegation* is the process through which a manager allocates work to subordinates. In general, the delegation process involves three steps: (1) the assignment of *responsibility*, (2) the granting of *authority*, and (3) the creation of *accountability.* As individuals are delegated responsibility and authority in a firm, a complex web of interactions develops. These interactions may take one of three forms of authority: *line*, *staff*, or *committee and team.*

4. **Explain the differences among functional, divisional, matrix, and international organizational structures and describe the most popular new forms of organizational design. (pp. 150–155)**
   Most firms rely on one of four basic forms of organizational structure: (1) *functional*, (2) *divisional*, (3) *matrix*, or (4) *international.* As global competition becomes more complex, companies may experiment with ways to respond. Some adopt truly global structures, acquiring resources and producing and selling products in local markets without consideration of national boundaries. Organizations also continue to seek new forms of organization that permit them to compete effectively. The most popular new forms include (1) *team organization*, (2) *virtual organization*, and (3) *learning organization.*

5. **Describe the informal organization and discuss intrapreneuring. (pp. 155–157)**
   The *formal organization* is the part that can be represented in chart form. The *informal organization*—everyday social interactions among employees that transcend formal jobs and job interrelationships—may alter formal structure. There are two important elements in most informal organizations. *Informal groups* consist of people who decide to interact among themselves. Their impact on a firm may be positive, negative, or irrelevant. The *grapevine* is an informal communication network that can run through an entire organization. Because it can be harnessed to improve productivity, some organizations encourage the informal organization. Many firms also support *intrapreneuring*—creating and maintaining the innovation and flexibility of a small business within the confines of a large, bureaucratic structure.

KEY TERMS

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accountability (p. 148)
authority (p. 148)
centralized organization (p. 146)
chain of command (p. 140)
committee and team authority (p. 149)
customer departmentalization (p. 144)
decentralized organization (p. 146)
delegation (p. 148)
departmentalization (p. 143)
division (p. 150)
divisional structure (p. 150)
flat organizational structure (p. 146)
functional departmentalization (p. 144)
functional structure (p. 150)
geographic departmentalization (p. 144)
grapevine (p. 156)
informal organization (p. 155)
international organizational structures (p. 153)
intrapreneuring (p. 156)
job specialization (p. 142)
line authority (p. 148)
line department (p. 148)
matrix structure (p. 151)
organization chart (p. 140)
organizational structure (p. 140)
process departmentalization (p. 143)
product departmentalization (p. 143)
profit center (p. 143)
responsibility (p. 148)
span of control (p. 146)
staff authority (p. 149)
staff members (p. 149)
tall organizational structure (p. 146)
work team (p. 149)

QUESTIONS AND EXERCISES

QUESTIONS FOR REVIEW

1. What is an organization chart? What purpose does it serve?
2. Explain the significance of size as it relates to organizational structure. Describe the changes that are likely to occur as an organization grows.
3. What is the difference between responsibility and authority?
4. Why do some managers have difficulties in delegating authority?
5. Why is a company's informal organization important?

QUESTIONS FOR ANALYSIS

6. Draw up an organization chart for your college or university.
7. Describe a hypothetical organizational structure for a small printing firm. Describe changes that might be necessary as the business grows.
8. Compare and contrast the matrix and divisional approaches to organizational structure. How would you feel personally about working in a matrix organization in which you were assigned simultaneously to multiple units or groups?

APPLICATION EXERCISES

9. Interview the manager of a local service business, such as a fast-food restaurant. What types of tasks does this manager typically delegate? Is the appropriate authority also delegated in each case?
10. Using books, magazines, or personal interviews, identify a person who has succeeded as an intrapreneur. In what ways did the structure of the intrapreneur's company help this individual succeed? In what ways did the structure pose problems?

BUILDING YOUR BUSINESS SKILLS

Getting with the Program

Goal

To encourage you to understand the relationship between organizational structure and a company's ability to attract and keep valued employees.

Background Information

You are the founder of a small but growing high-tech company that develops new computer software. With your current workload and new contracts in the pipeline, your business is thriving, except for one problem: You cannot find computer programmers for product development. Worse yet, current staff members are being lured away by other high-tech firms. After suffering a particularly discouraging personnel raid in which competitors captured three of your most valued employees, you schedule a meeting with your director of human resources to plan organizational changes designed to encourage worker loyalty. You already pay top dollar, but the continuing exodus tells you that programmers are looking for something more.

Method

Working with three or four classmates, identify some ways in which specific organizational changes might improve the working environment and encourage employee loyalty. As you analyze the following factors, ask yourself the obvious question: If I were a programmer, what organizational changes would encourage me to stay?

- *Level of job specialization.* With many programmers describing their jobs as tedious because of the focus on detail in a narrow work area, what changes, if any, would you make in job specialization? Right now, for instance, few of your programmers have any say in product design.
- *Decision-making hierarchy.* What decision-making authority would encourage people to stay? Is expanding employee authority likely to work better in a centralized or decentralized organization?
- *Team authority.* Can team empowerment make a difference? Taking the point of view of the worker, describe the ideal team.
- *Intrapreneuring.* What can your company do to encourage and reward innovation?

FOLLOW-UP QUESTIONS

1. With the average computer programmer earning nearly $70,000, and with all competitive firms paying top dollar, why might organizational issues be critical in determining employee loyalty?
2. If you were a programmer, what organizational factors would make a difference to you? Why?
3. As the company founder, how willing would you be to make major organizational changes in light of the shortage of qualified programmers?

EXERCISING YOUR ETHICS: INDIVIDUAL EXERCISE

Minding Your Own Business

The Situation

Assume that you have recently gone to work for a large high-tech company. You have discovered an interesting arrangement in which one of your coworkers is engaging. Specifically, he blocks his schedule for the hour between 11:00 A.M. and 12:00 noon each day and does not take a lunch break. During this one-hour interval, he is actually running his own real estate business.

The Dilemma

You recently asked this employee how he manages to pull this off. "Well," he responded, "the boss and I never talked about it, but she knows what's going on. They know they can't replace me, and I always get my work done. I don't use any company resources. So, what's the harm?" Interestingly, you also have a business opportunity that could be pursued in the same way.

QUESTION TO ADDRESS

1 What are the ethical issues in this situation?
2 What do you think most people would do in this situation?
3 What would you do in this situation?

EXERCISING YOUR ETHICS: TEAM EXERCISE

To Poach, or Not to Poach …

The Situation

The Hails Corporation, a manufacturing plant, has recently moved toward an all-team-based organization structure. That is, all workers are divided into teams. Each team has the autonomy to divide up the work assigned to it among its individual members. In addition, each team handles its own scheduling for members to take vacations and other time off. The teams also handle the interviews and hiring of new team members when the need arises. Team A has just lost one of its members who moved to another city to be closer to his ailing parents.

The Dilemma

Since moving to the team structure, every time a team has needed new members, it has advertised in the local newspaper and hired someone from outside the company. However, Team A is considering a different approach to fill its opening. Specifically, a key member of another team (Team B) has made it known that she would like to join Team A. She likes the team members, sees the team's work as being enjoyable, and is somewhat bored with her team's current assignment.

The concern is that if Team A chooses this individual to join the team, several problems may occur. For one thing, her current team will clearly be angry with the members of Team A. Further, "poaching" new team members from other teams inside the plant is likely to become a common occurrence. On the other hand, though, it seems reasonable that she should have the same opportunity to join Team A as an outsider would. Team A needs to decide how to proceed.

Team Activity

Assemble a group of four students and assign each group member to one of the following roles:

- Member of Team A
- Member of Team B
- Manager of both teams
- Hails investor

ACTION STEPS

1 Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, do you think that the member of Team B should be allowed to join Team A? Write down the reasons for your position.
2 Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, what are the underlying ethical issues, if any, in this situation? Write down the issues.
3 Gather your group together and reveal, in turn, each member's comments on the situation. Next, reveal the ethical issues listed by each member.
4 Appoint someone to record main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
5 From an ethical standpoint, what does your group conclude is the most appropriate action that should be taken by Hails in this situation? Should Team B's member be allowed to join Team A?
6 Develop a group response to the following questions: Assuming Team A asks the Team B member to join its team, how might it go about minimizing repercussions? Assuming Team A does not ask the Team B member to join its team, how might it go about minimizing repercussions?

VIDEO EXERCISE MyBizLab

My Gym

Learning Objectives

The purpose of this video is to help you:

1 Explain how specialization and departmentalization create organizational structure.
2 Describe the role of centralization and decentralization in the management of an organization.
3 Identify the characteristics, advantages, and disadvantages of a functional structure.

Synopsis

My Gym is an international enterprise that has developed fitness programs for children from infancy to age 13 that focus on their psychological, as well as physiological needs. Through their programming, My Gym hopes to make fitness fun and help to reverse a trend of increased rates of childhood obesity. My Gym began operations in 1983 when the three cofounders, William Caplin and Yacov and Susi Sherman, opened the first two locations in Santa Monica and Van Nuys, California. The company added new partners over the next 12 years and refined their business model and developed custom-made equipment. In 1995, My Gym began selling franchises. In 2011, there are more than 200 My Gyms in the United States and over 25 countries around the world. The company has ambitious goals, hoping to expand to more than 300 facilities in more than 50 countries by the end of 2012. The company also hopes to expand through their mobile program, bringing My Gym programming to schools, community centers, camps, or any other location with children in need of fun and exercise.

DISCUSSION QUESTIONS

1. As My Gym grew as an organization, jobs became more specialized. What are the advantages to more specialized jobs at My Gym?
2. Envisioning the My Gym organization as a headquarters operation, with more than 200 locations, each directed by a branch manager/franchise owner, what form of departmentalization is being used? Be sure to support your conclusion.
3. What is centralization? What types of decisions do you think would be centralized at the headquarters for My Gym? What are the advantages of this type of centralization to My Gym?
4. What is decentralization? What types of decisions do you think would be decentralized to individual locations? What are the advantages of this type of decentralization to My Gym and franchise owners?
5. My Gym's headquarters has a functional structure, with managers heading divisions for accounting and finance, marketing, training, and franchise development. What are the advantages and disadvantages of a functional structure?

Online Exploration

Although there over 200 My Gym locations around the world, many of us have never had the opportunity to step inside. Visit the company's website at www.my-gym.com to learn more about their programming and organizational structure. As the company continues to expand, both domestically and internationally, and opens more locations, how do you think that the organizational structure may change?

END NOTES

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