

chapter

7

Organizing the Business Enterprise



After studying this chapter, you should be able to:

LO-1 Discuss the elements that influence a firm's *organizational structure*.

LO-2 Explain how *specialization* and *departmentalization* are the building blocks of organizational structure.

LO-3 Distinguish between *responsibility* and *authority* and explain the differences in decision making in *centralized* and *decentralized organizations*.

LO-4 Explain the differences between *functional*, *divisional*, *project*, and *international organization structures*, and describe the most popular forms of organizational design.

LO-5 Understand how the *informal organization* is different from the formal organization.

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Reorganizing the Irving Empire

The Irving family of New Brunswick is a legendary success story in Canadian business. The company owns nearly 300 businesses in areas as diverse as oil refining, forestry, shipbuilding, food processing, publishing, transportation, and home improvement, and it has dominated corporate life in New Brunswick for decades. The company represents Canada's third largest fortune, and is valued at about \$6 billion. The company was founded by J.D. Irving in 1882 when he opened a sawmill in Bouctouche, New Brunswick. The business expanded dramatically under his son K.C. Irving, who then passed it on to his sons J.K. (Jim), Arthur, and J.E. (Jack). These three brothers have five sons working in the business. The two most active are Jim (J.K.'s son), who oversees the forestry operations, and Kenneth (Arthur's son), who heads the oil and gas operation, and who was seen as a strong modernizing force in the company.

In July 2010, two unexpected events took place: Jack Irving died, and Kenneth announced that he was taking a leave of absence from the company. In recent years, tensions had developed between Ken and Jim regarding the strategic direction of the company because they each wanted more control over the business. These tensions also made relations between J.K. and his brothers more difficult, and threatened the company's tradition of passing on control of the company to the next generation.

Originally, K.C. Irving set up a structure that saw J.K. (and later his son Jim) running the forestry empire, trucking, food processing, and newspapers. Arthur (and later his son Kenneth) was in charge of oil refineries and service stations. Jack's responsibilities were in construction, steel, and real estate. The grand plan began to fall apart when Jim began to feel restricted by the structure because it tied his strategy to Ken's. As well, the third brother—Jack—began to feel like an also-ran in the company. As a result, a coalition—composed of Arthur and Jack and their families—developed and began to oppose Jim and his family.

These tensions were surprising because the Irving family had always presented a united front. But once the conflict became public, the key players in the business decided to avoid the problems that many other family businesses have faced when family members disagree. To their credit, the brothers wanted to avoid a bitter family feud like the one that engulfed the McCain brothers in the 1990s. So, they started talking about how to achieve an amicable parting of the ways. They basically decided to

How Will This Help Me?

Companies frequently introduce changes to improve their organizational structures. By understanding the material in this chapter, as an *employee*, you'll understand your "place" in the organization that employs you. As a *boss* or *owner*, you'll be better equipped to decide on the optimal structure for your own organization.

restructure the company and let the two main parts go their separate ways. Jim and his family took control of the forestry end of the business, and Ken and his family took over the oil and gas business.

The restructuring is a bit complicated because the various businesses in the family empire are controlled by trusts that were set up by K.C. Irving many years ago. In order to divide the company, the dozens of family members who have an interest will have to agree on what the restructuring will look like. Irving descendants will likely be offered cash or business interests in return for the original trusts being phased out.

The complexity involved in dividing up the trusts is only one problem. The other is the shifting fortunes of the two main businesses (energy and forestry). In 2007, the energy business was in good shape (because of high oil prices), while forestry was suffering (the high Canadian dollar had a negative effect on exports of lumber). This was just the reverse of the situation that existed in the 1990s, when forestry was booming and the energy business was suffering (partly because of cost overruns on a new refinery that was being built in St. John). At that time, the energy business needed a bailout, and the forestry side of the business provided it. By 2009, however, oil prices had dropped dramatically and so had the Canadian dollar, so the fortunes of the two main parts of the Irving empire were converging once again.

ORGANIZATIONAL STRUCTURE

The specification of the jobs to be done within a business and how those jobs relate to one another.

ORGANIZATION CHART

A physical depiction of the company's structure showing employee titles and their relationship to one another.

What Is Organizational Structure?

Organizational structure is the specification of the jobs to be done within a business and how those jobs relate to one another. This definition will be clear if we consider the following analogy. In many ways, a business is like an automobile. All automobiles

have an engine, four wheels, fenders, and other structural components, an interior compartment for passengers, and various operating systems including those for fuel, braking, and climate control. Each component has a distinct purpose, but it must also work in harmony with the others. Similarly, all businesses have common structural and operating components, each of which has a specific purpose. Each component must fulfill its own purpose while simultaneously fitting in with the others. And, just like automobiles made by different companies, how these components look and fit together varies from company to company.

Every institution—be it a for-profit business like Irving Oil, a not-for-profit organization like the University of Saskatchewan, or a government agency like the Canadian Wheat Board—must develop an appropriate structure for its own unique situation. What works for Air Canada is not likely to work for the Canada Revenue Agency. Likewise, the structure of the Red Cross will not likely work for the University of Toronto.

use to create structure? Or does it develop by some combination of circumstance and strategy? Ideally, managers should carefully assess a variety of important factors as they plan for and then create a structure that will allow their organization to function efficiently. But with the busyness that is evident in most organizations, structure may develop without sufficient planning.

What factors influence structure? The organization's *purpose*, *mission*, and *strategy* are obviously important. A dynamic and rapidly growing enterprise, for example, needs a structure that contributes to flexibility and growth, while a stable organization with only modest growth will function best with a different structure. Size, technology, and changes in environmental circumstances also affect structure. A large manufacturing firm operating in a strongly competitive environment requires a different structure than a local barbershop or video store.

Whatever structure an organization adopts, it is rarely fixed for long. Indeed, most organizations change their structures almost continually. Ford Motor Co. has, for example, initiated several major structural changes in just the last 15 years. In 1994, 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 2000. By 1998, however, midway through implementation of the plan, top Ford executives announced further modifications, and in 2001 still more changes were announced that were intended to boost the firm's flagging bottom line and stem a decline in product quality.^{1,2} The problems that developed in the automobile industry in 2008 resulted in further significant structural changes.

The Chain of Command

Most businesses prepare **organization charts** that illustrate the company's structure and show employees where they fit into the firm's operations. Figure 7.1 shows the organization chart for a hypothetical company. Each

LO-1 Determinants of Organizational Structure

How is an organization's structure determined? Does it happen by chance or is there some logic that managers

box represents a job within the company. The solid lines that connect the boxes define the **chain of command**, or the reporting relationships within the company. Thus, each plant manager reports directly to the vice-president of production who, in turn, reports to the president. When the chain of command is not clear, many different kinds of problems can result. An actual organization chart would, of course, be far more complex and include individuals at many more levels. Large firms cannot easily draw an organization chart with everyone on it.

The Building Blocks of Organizational Structure

Whether a business is large or small, the starting point in developing its organizational structure is determining who will do what and how people performing certain tasks can most appropriately be grouped together. Job specialization and departmentalization represent the basic building blocks of all businesses.

LO-2 Specialization

Job specialization is the process of identifying the specific jobs that need to be done and designating the people who will perform them. In a sense, all organizations have only one major “job”—say, making a profit by manufacturing and selling men’s and boys’ shirts. But this big job must be broken into smaller components, and each component is then assigned to an individual. Consider the manufacturing of men’s shirts. Because several steps are

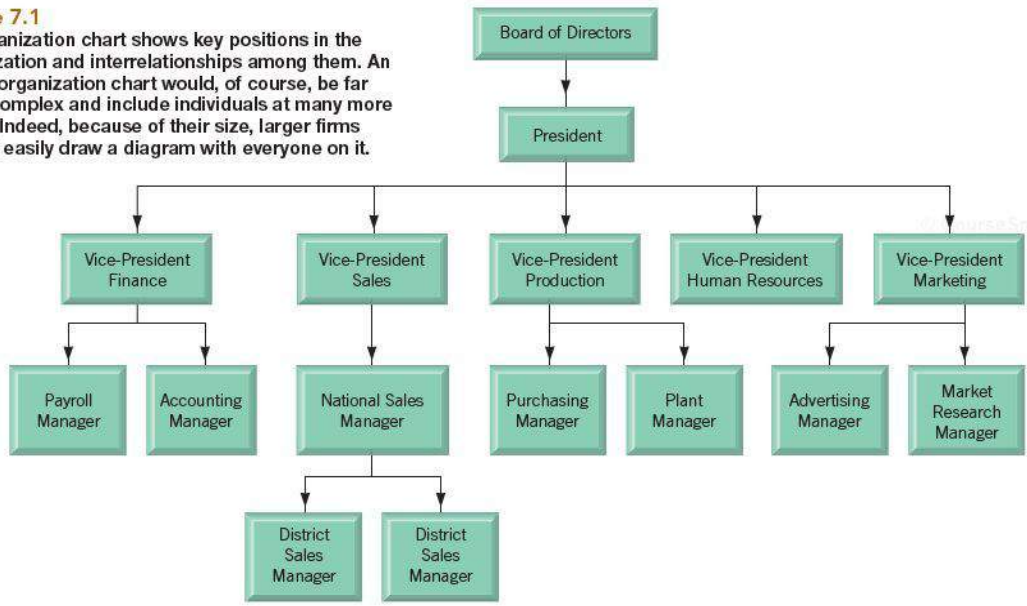
required to produce a shirt, each job is broken down into its component parts—that is, into a set of tasks to be completed by a series of individuals or machines. One person, for example, cuts material for the shirt body, another cuts material for the sleeves, and a third cuts material for the collar. Components are then shipped to a sewing room, where a fourth person assembles the shirt. In the final stage, a fifth person sews on the buttons.³

CHAIN OF COMMAND
Reporting relationships within a business; the flow of decision-making power in a firm.

JOB SPECIALIZATION
The process of identifying the specific jobs that need to be done and designating the people who will perform them.

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. Consider the case of Mrs Fields Gifts, producer of gourmet cookies. When Debbi Fields opened her first store, she did everything herself: bought the equipment, negotiated the lease, baked the cookies, operated the store, and kept the records. As the business grew, however, she found that her job was becoming too much for one person. She first hired a bookkeeper to handle her financial records, then an in-store manager and a cookie baker. Her second store required another set of employees—another manager, another baker, and some salespeople. While Fields focused her attention on other expansion opportunities, she turned promotions over to a

Figure 7.1
An organization chart shows key positions in the organization and interrelationships among them. An actual organization chart would, of course, be far more complex and include individuals at many more levels. Indeed, because of their size, larger firms cannot easily draw a diagram with everyone on it.



DEPARTMENTALIZATION The process of grouping jobs into logical units.

PROFIT CENTRE
A separate company unit responsible for its own costs and profits.

FUNCTIONAL DEPARTMENTALIZATION
Departmentalization according to functions or activities.

CUSTOMER DEPARTMENTALIZATION
Departmentalization according to the types of customers likely to buy a given product.



When Walt Disney and his brother Roy made Mickey Mouse's debut in *Steamboat Willie* in 1933, they handled every step of the creative process. Today, it takes hundreds of people to create an animated film like 2009's *Up*.

professional advertising director. Thus the job that she once did all by herself was increasingly

broken down into components and assigned to different individuals.

Job specialization is a natural part of organizational growth. It is neither a new idea nor limited to factory work. It carries with it certain advantages—individual jobs can be performed more efficiently, the jobs are easier to learn, and it is easier to replace people who leave the organization. But if job specialization is carried too far and jobs become too narrowly defined, people get bored, become less satisfied with their jobs, and lose sight of how their contributions fit into the overall organization.

Departmentalization

After jobs are specialized, they must be grouped into logical units. This process is called **departmentalization**. Companies benefit from departmentalization because top managers can see more easily how various units are performing. Departmentalization allows the firm to treat a department as a **profit centre**—a separate unit responsible for its own costs and profits. Thus, by assessing profits from sales in a particular area—say, men's clothing—Sears can decide whether to expand or curtail promotions in that area.

Managers group jobs logically, according to some common thread or purpose. In general, departmentalization occurs along *functional*, *customer*, *product*, *process*, or *geographic* lines (or any combination of these).

Functional Departmentalization Many service and manufacturing companies develop departments based on a group's functions or activities—**functional departmentalization**. Such firms typically have a production department, a marketing and sales department, a personnel department, and an accounting and finance department.

These departments may be further subdivided, just as a university's business school may be subdivided into departments of accounting, finance, marketing, and management.

Customer Departmentalization Some retail stores actually derive their generic name—department stores—from the manner in which they are structured. Stores like HMV are divided into departments—a classical music department, an R&B department, a pop department, and so on. Each department targets a specific customer category (people who want different genres of music).

Customer departmentalization makes shopping easier by providing identifiable store segments. Thus, a customer shopping for Shania Twain's latest CD can bypass World Music and head straight for Country. Stores can also group products in locations designated for deliveries, special sales, and other service-oriented purposes.



Nissan has developed an assembly process that is so efficient that it can turn out a vehicle in 10 fewer hours than Ford can. The key is the organization of the workstations. At this station, workers install just about everything that the driver touches inside the truck cab. Other stations take care of the whole vehicle frame, the entire electrical system, or completed doors.



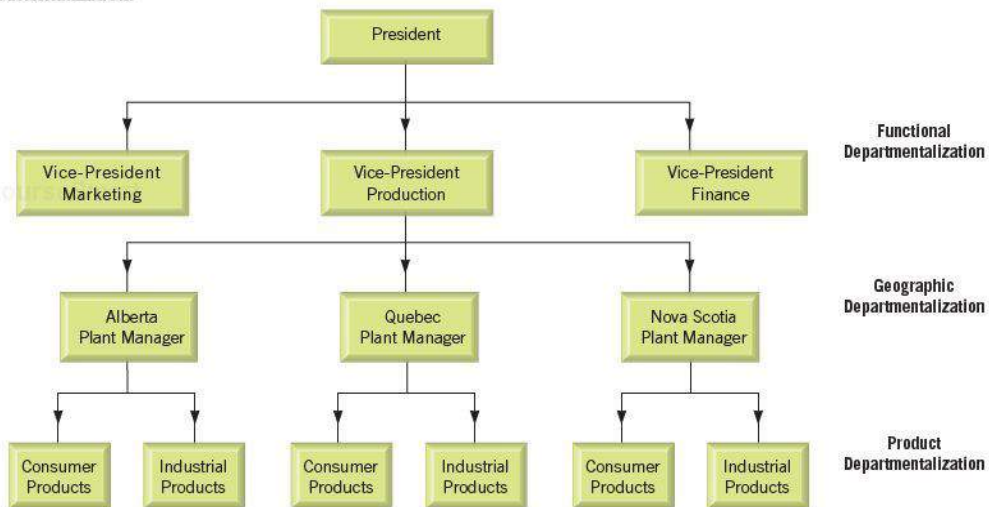
Many department stores are departmentalized by product. Concentrating different products in different areas of the store makes shopping easier for customers.

In general, the store is more efficient and customers get better service—in part because salespeople tend to specialize and gain expertise in their departments.⁴

Product Departmentalization **Product departmentalization** means dividing an organization according to the specific product or service being created. A bank, for example, may handle consumer loans in one department and commercial loans in another. 3M, which makes both consumer and industrial products, operates different divisions for Post-it brand sticky notes, Scotch-Brite scrub sponges, and the Sams Sternal Saw II.

Process Departmentalization **Process departmentalization** means dividing the company according to

Figure 7.2
Most organizations use multiple bases of departmentalization. This organization, for example, is using functional, geographic, and product departmentalization.



the production process used. Vlasic, a pickle maker, has separate departments that transform cucumbers into fresh-packed pickles, relishes, or pickles cured in brine.

Geographic Departmentalization Some firms may be divided according to the area of the country—or even the world—they serve. This is known as **geographic departmentalization**. In 2009, Nike introduced a new structure that was organized around six geographic regions: North America, Western Europe, Eastern/Central Europe, Greater China, Japan, and emerging markets.⁵ Levi Strauss has one division for the United States, one for Europe, and one for the Asia-Pacific region. PepsiCo has three geographic divisions: Americas Food, Americas Beverages, and International. The Managing in Turbulent Times boxed insert below describes some dilemmas that companies face when they try to choose between product and geographic departmentalization.

Because different forms of departmentalization offer different advantages, larger companies tend to adopt different types of departmentalization at various levels of the corporation. For example, the company illustrated in Figure 7.2 uses functional departmentalization at the top level, geographic departmentalization in its production department, and product departmentalization in its marketing unit.

PRODUCT DEPARTMENTALIZATION

Departmentalization according to the products being created or sold.

PROCESS DEPARTMENTALIZATION

Departmentalization according to the production process used to create a good or service.

GEOGRAPHIC DEPARTMENTALIZATION

Departmentalization according to the area of the country or world supplied.

Product vs. Geographical Departmentalization: What's the Right Choice?

Geographical departmentalization became popular many years ago as companies expanded their operations across national borders. Since relatively limited communications made it difficult to take the pulse of consumer needs or monitor operations abroad, it made sense to let local managers in foreign countries run their regional or country businesses as more or less autonomous companies. However, two trends are making this structure less popular today. First, information technology is reducing the impediments to cross-border communication. Second, global competition is so intense that firms can't afford to miss an opportunity to quickly transfer product improvements from one region to another.

For example, the Canadian Imperial Bank of Commerce (CIBC) reorganized in order to break down the walls between the conservative and traditional retail/commercial banking side, and the more volatile investment banking side. The company is now organized around product lines. Exide Technologies, the world's largest producer of automotive and industrial batteries, has also shifted from geographical to product departmentalization. Previously, Exide's structure consisted of about 10 "country organizations." The head of each country organization had considerable latitude to make decisions that were best for that person's country. It also meant that each country manager focused on products that were marketable in that country. Under the new product system, global business units have been formed to oversee the company's various product lines such as car and industrial batteries. But the change has not been without problems. For

example, a top executive got upset when his unit was made subordinate to a newly acquired unit. It wasn't long before Exide was tinkering with its organization chart again.

Either approach—products or geography—can cause problems if taken to an extreme. If a company organizes by products, it can standardize manufacturing, introduce new products around the world faster, and eliminate overlapping activities. But if too much emphasis is placed on product and not enough on geography, a company is likely to find that local decision making is slowed, pricing flexibility is reduced, and products are not tailored to meet the needs of a specific country's customers.

Ford Motor Company experienced exactly these problems when it decided to move toward the product model. The reorganization saved the company \$5 billion in its first few years of operation, but Ford's market share declined during the same period. This is what we would expect to happen when too much emphasis is placed on product departmentalization. Ford responded to this drop in market share by giving executives in various regions more authority to decide what types of vehicles were best for their local market. In other words, it moved back a bit toward the geographical model.

Critical Thinking Question

1. In your own words, explain the dilemma that managers face when they are trying to decide between product departmentalization and geographical departmentalization.
2. *Performing tasks*: implementing decisions that have been made.
3. *Distributing authority*: determining whether the organization is to be centralized or decentralized.

Establishing the Decision-Making Hierarchy

A major question that must be asked about any organization is this: *Who makes which decisions?* This leads to a consideration of the decision-making hierarchy, which generally results from a three-step process:

1. *Assigning tasks*: determining who can make decisions and specifying how they should be made.

LO-3 Assigning Tasks

The question of who is supposed to do what and who is entitled to do what in an organization is complex. In any company with more than one person, individuals must work out agreements about responsibilities

and authority. **Responsibility** is the duty to perform an assigned task, while **authority** is the power to make the decisions necessary to complete the task. The amount of authority and responsibility a person has must be consistent. Imagine a mid-level buyer for the Bay who encounters an unexpected opportunity to make a large purchase at an extremely good price but does not have the authority to make such a purchase without confirmation from above. The company's policies on delegation and authority are inconsistent, since the buyer is *responsible* for purchasing clothes that will be sold in the upcoming season but lacks the *authority* to make the needed purchases.

Performing Tasks

When appropriate levels of responsibility and authority are not clearly spelled out, difficulties arise between managers and subordinates around the issues of delegation and accountability. **Delegation** begins when a manager assigns a task to a subordinate. **Accountability** then falls to the subordinate, who must complete the task. If the subordinate does not perform the assigned task properly and promptly, he or she may be reprimanded, punished, or possibly even dismissed.

Some managers have trouble delegating tasks because (a) they assume that subordinates can never do anything as well as the manager can; (b) they fear that their subordinates will "show them up" in front of others by doing a superb job; or (c) they want to control everything. Managers who fail to delegate don't have time to do long-range planning, and they may be uninformed about important industry trends and competitive products because they are too involved in day-to-day operations.

There are remedies for these problems. First, managers should recognize that they cannot do everything themselves. Second, if subordinates cannot do a job, they should be trained so that they can assume more responsibility. Third, managers should recognize that if a subordinate performs well, that reflects favourably on the manager. Effective managers surround themselves with a team of strong subordinates, and then delegate sufficient authority to those subordinates so they can get the job done. There are four things to keep in mind when delegating:

- decide on the nature of the work to be done
- match the job with the skills of subordinates
- make sure the person chosen understands the objectives he or she is supposed to achieve
- make sure subordinates have the time and training necessary to do the task

Distributing Authority

In a **centralized organization**, top management retains the right to make most decisions that need to be made. Most lower-level decisions must be approved by upper

management before they can be implemented.⁶ McDonald's, for example, uses centralization as a way to standardize its operations. All restaurants must follow precise steps in buying products and making and packaging burgers and other 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.⁷

In a **decentralized organization**, more decision-making authority is delegated to managers at lower levels in the hierarchy. The purpose of decentralization is to make a company more responsive to its environment. At FedEx, the commitment to decentralization promotes 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.⁸

There are both advantages and disadvantages of decentralization, and they can clearly be seen in the long history of General Motors. In the 1920s, GM's legendary president, Alfred Sloan, introduced a decentralized structure that gave each car division considerable autonomy to produce cars that would attract whatever market segment

RESPONSIBILITY

The duty to perform an assigned task.

AUTHORITY

The power to make the decisions necessary to complete a task.

DELEGATION

Assignment of a task, a responsibility, or authority by a manager to a subordinate.

ACCOUNTABILITY

Liability of subordinates for accomplishing tasks assigned by managers.

CENTRALIZED ORGANIZATION

Top managers retain most decision-making rights for themselves.

DECENTRALIZED ORGANIZATION

Lower- and middle-level managers are allowed to make significant decisions.



McDonald's emphasis on centralization ensures standardization in its product offerings. Customers will have a consistent dining experience whenever and wherever they eat at a McDonald's restaurant.

SPAN OF CONTROL

The number of people managed by one manager.

DOWNSIZING

The planned reduction in the scope of an organization's activity.

LINE AUTHORITY

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

LINE DEPARTMENT

A department directly linked to the production and sale of a specific product.

the division was pursuing. It worked so well that GM became the largest automobile manufacturer in the world by the middle of the twentieth century.

But all this autonomy resulted in widely differing car designs that were very expensive to produce. As decades passed, costs soared and competition from cost-conscious Japanese automakers became ferocious. GM's sales and overall profitability plummeted. In response, GM took away much of the autonomy that managers in various international divisions had and instituted a requirement that its worldwide units

tasks being performed, and the extent to which tasks are interrelated. For example, when many employees perform the same simple task or a group of interrelated assembly-line tasks, a wide span of control is possible. Because all the jobs are routine, one supervisor may well control an entire assembly line having 40 or more workers. Since tasks are interrelated—if one workstation stops, they all stop—having one supervisor ensures that all stations receive equal attention. In contrast, when jobs are not routine, or when they are unrelated, a narrower span of control is preferable.

Downsizing—the planned reduction in the scope of an organization's activity—affects the span of control. When downsizing involves cutting large numbers of managers, entire layers of management are eliminated. When this happens, the remaining managers often end up with larger spans of control. Because spans of control are wider, corporate structures are flatter after downsizing.

work much more closely together to design cars that could be sold (with modest variations) worldwide. A "Global Council" in Detroit now makes key decisions about how much will be spent on new car development. When GM engineers at its Daewoo joint venture with South Korea wanted to develop a sport utility vehicle especially suited for the South Korean market, the request was denied.⁹ But even these actions were not sufficient to stem GM's decline, and in 2008 the company was bailed out by the U.S. and Canadian governments and entered bankruptcy protection as it tried to recover. By 2010, the company's performance had improved somewhat, but there were still great concerns about its survival.

Span of Control The span of control refers to how many people work for any individual manager. The span of control may be *wide* (many subordinates reporting to a boss) or *narrow* (few subordinates reporting to a boss). Factors influencing the span of control include employees' abilities, the supervisor's managerial skills, the nature of the

Three Forms of Authority

As individuals are delegated responsibility and authority, a complex web of interactions develops. These interactions may take one of three forms of authority: *line*, *staff*, or *committee and team*. All three forms of authority may be found in a single company, especially if it is a large one.

Line Authority Line authority is authority that flows up and down the chain of command (refer to Figure 7.1). Most companies rely on **line departments**, those that are directly linked to the production and sale of specific products. For example, Clark, an equipment manufacturer, has a division that produces forklifts and small earth movers (see Figure 7.3). In this division, 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).

Each line department is essential in achieving the goals the company has set. Line employees are the

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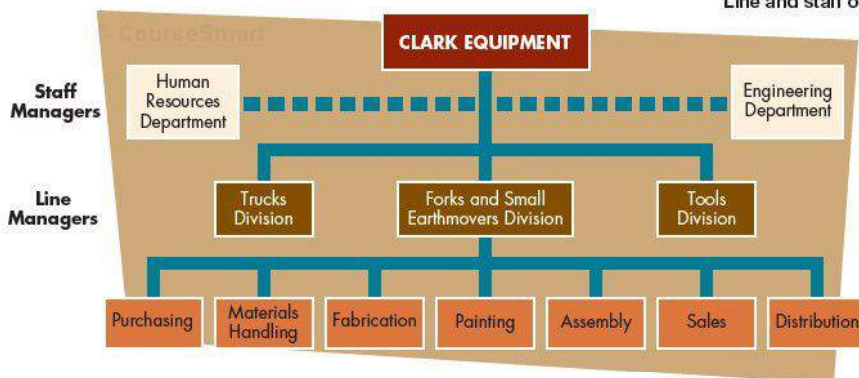


Figure 7.3
Line and staff organization.

“doers” and producers in a company. If any line department fails to complete its task, the company cannot sell and deliver finished goods. Thus, significant authority is usually delegated to line departments.

Staff Authority Companies often employ individuals with technical expertise in areas like law, accounting, marketing research, and human resources. These experts may be given **staff authority**; that is, they help line departments in making decisions, but they do not have the authority to make the final decision. For example, if the fabrication department at Clark has an employee with a drinking problem, the line manager of the department might consult a human resource staff expert for advice on how to handle the situation. The staff expert might suggest that the worker stay on the job but enter a counselling program. But if the line manager decides that the job is too dangerous to be handled by a person whose judgment is impaired by alcohol, the line manager’s decision will most likely prevail.

Typically, line authority is represented on organization charts by solid lines, while staff authority is shown by dotted lines. Line managers are directly involved in producing the firm’s products or services, while staff members generally provide services to management. But remember this: the goals of the organization influence the distinction between line and staff authority. At Aluminum Company of Canada, for example, the director of personnel has staff authority because the personnel department supports the primary function of the company (the production and marketing of aluminum). But at Office Overload the director of personnel is a line manager because the primary goal of

that firm is to provide personnel to other firms.

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

Teams are also used at the operating level. Groups of operating employees are often empowered to plan and organize their own work and to perform that work with a minimum of supervision. As with permanent top management committees, the organization will usually find it beneficial to grant special authority to operating work teams so that they may function more effectively.¹⁰ More detailed information about teams is presented in Chapter 9.

STAFF AUTHORITY

Authority that is based on expertise and that usually involves advising line managers.

COMMITTEE AND TEAM AUTHORITY

Authority granted to committees or work teams involved in a firm’s daily operations.

FUNCTIONAL STRUCTURE

Various units are included in a group based on functions that need to be performed for the organization to reach its goals.

DIVISIONAL STRUCTURE

Divides the organization into divisions, each of which operates as a semiautonomous unit.



Business firms are increasingly using work teams and allowing groups of employees to plan and organize their own work with a minimum of supervision. This contributes to employee empowerment.

LO-4 Basic Organizational Structures

A glance at the organization charts of many organizations reveals what appears to be an almost infinite variety of structures. However, closer examination shows that most of them fit into one of four basic categories: *functional*, *divisional*, *project*, or *international*.

The Functional Structure

In the **functional structure**, the various units in the organization are formed based on the key functions that must be carried out to reach organizational goals. The functional structure makes use of departmentalization by function. An example of a functional structure was shown in Figure 7.1. The advantages and disadvantages of the functional structure are summarized in Table 7.1.

The Divisional Structure

The **divisional structure** divides the organization into several divisions, each of which operates as a semi-autonomous

Table 7.1 Advantages and Disadvantages of a Functional Structure

Advantages	Disadvantages
1. It focuses attention on the key activities that must be performed.	1. Conflicts may arise among the functional areas.
2. Expertise develops within each function.	2. No single function is responsible for overall organizational performance.
3. Employees have clearly defined career paths.	3. Employees in each functional area have a narrow view of the organization.
4. The structure is simple and easy to understand.	4. Decision making is slowed because functional areas must get approval from top management for a variety of decisions.
5. It eliminates duplication of activities.	5. Coordinating highly specialized functions may be difficult.

PROJECT ORGANIZATION

An organization that uses teams of specialists to complete specific projects.

unit and profit centre. Divisions in organizations can be based on products, customers, or geography. In 2008, Teck Resources Ltd. (formerly Teck Cominco Ltd.) reorganized its business into separate product

divisions for gold, copper, zinc, metallurgical coal, and energy. The company felt that the new structure would increase its competitiveness and allow it to act on opportunities in the five different commodity segments.¹¹ A few years earlier, Bell Canada created three divisions based on which *customers* were being served: consumers, small- and medium-sized businesses, and large corporations. This structure replaced the former divisional structure that was geographically based.¹² Whatever basis is used, divisional performance can be assessed easily each year because the division operates as a separate company.

Divisionalized companies can buy, sell, create, and disband divisions without disrupting the rest of their operations. Different divisions can sponsor separate advertising campaigns and foster different corporate identities. They can also share certain corporate-level resources (such as market research data). But unhealthy competition may develop between divisions, and the efforts of one division may be duplicated by those of another. At PepsiCo, for example, each of the company's three major beverage brands—Pepsi, Gatorade, and Tropicana—formerly operated as independent divisions. But this independence became a problem because the three brands were competing for the same resources and there was very little coordination and sharing of

information between the divisions. Now, all three brands are in one division so that a unified approach to brand management is achieved.

The advantages and disadvantages of the divisional structure are summarized in Table 7.2.

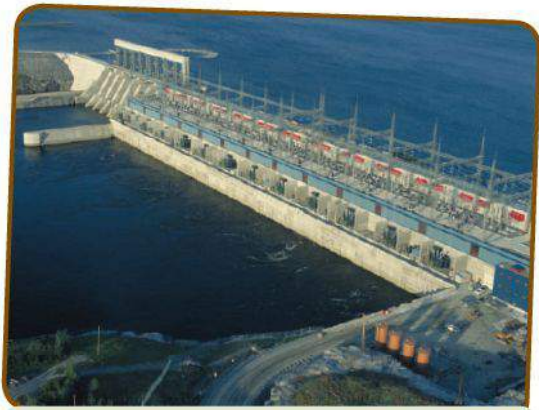
Project Organization

A typical organization is characterized by unchanging vertical authority relationships because the organization produces a product or service in a repetitive and predictable way. Procter & Gamble, for example, produces millions of tubes of Crest toothpaste each year using standardized production methods. The company has done this for years and intends to do so indefinitely. But some organizations find themselves faced with new product opportunities, or with projects that have a definite starting and ending point. These organizations often use a project structure to deal with the uncertainty encountered in new situations. **Project organization** involves forming a team of specialists from different functional areas of the organization to work on a specific project.¹³ A project structure may be temporary or permanent; if it is temporary, the project team disbands once the project is completed and team members return to their regular functional area or are assigned to a new project.

Project organization is used extensively by Canadian firms in the construction of hydroelectric generating stations like those developed by Hydro-Québec on the La Grande River, and by Manitoba Hydro on the Nelson River. Once the generating station is complete, it becomes part of the traditional structure of the utility. Project organization is also used at Genstar Shipyards Ltd. in Vancouver.

Table 7.2 Advantages and Disadvantages of a Divisional Structure

Advantages	Disadvantages
1. It accommodates change and expansion.	1. Activities may be duplicated across divisions.
2. It increases accountability.	2. A lack of communication among divisions may occur.
3. It develops expertise in the various divisions.	3. Adding diverse divisions may blur the focus of the organization.
4. It encourages training for top management.	4. Company politics may affect the allocation of resources.



The project organization structure is very useful for construction projects like this hydroelectric generating station on the La Grande River in Quebec. The construction of installations like this has a specific beginning and ending point. Once completed, the generating station becomes part of the traditional organization structure of the provincial utility.

experts organized into groups such as cooking, crafts, weddings, and so forth (see Figure 7.4). Although each group targets specific customer needs, they all work across all product groups. A wedding expert, for example, might contribute to an article on wedding planning for a Martha Stewart magazine, develop a story idea for a Martha Stewart cable television program, and supply content for a Martha Stewart website. This same individual might also help select fabrics suitable for wedding gowns that are to be retailed.¹⁵

The matrix structure is not always effective. In 2009, Carol Bartz—the new CEO at Yahoo!—announced a restructuring that was designed to make managers more accountable and to speed up decision making. The new structure essentially did away with the matrix structure and workers no longer report to multiple bosses.¹⁶

MATRIX ORGANIZATION
A project structure in which the project manager and the regular line managers share authority until the project is concluded.

INTERNATIONAL ORGANIZATIONAL STRUCTURE
An organizational structure that is designed to help a company succeed in international markets. International departments, international divisions, or an integrated global organization are all variations of the international organizational structure.

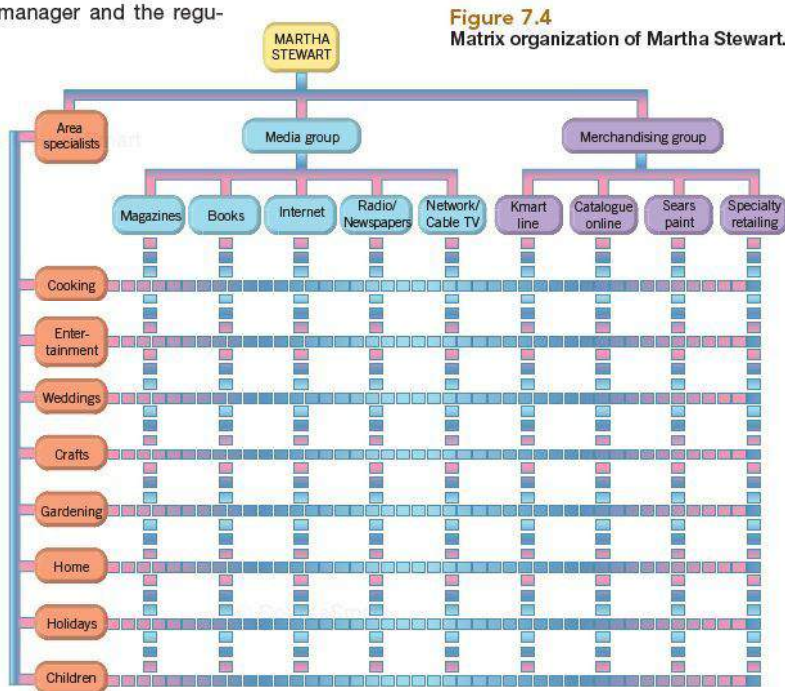
Each ship that is built is treated as a project and supervised by a project manager, who is responsible for ensuring that the ship is completed on time and within budget.¹⁴ Project organization has also proven useful for coordinating the many elements needed to extract oil from the tar sands.

A **matrix organization** is a variation of the project structure in which the project manager and the regular line managers share authority. When a project is concluded, the matrix is disbanded. Ford, for example, uses a matrix organization to design new car models. A design team composed of people from engineering, marketing, operations, and finance is created to design the new car. After the team's work is completed, team members move back to their permanent functional jobs.

Martha Stewart Living Omnimedia, Inc. has created a permanent matrix organization for its lifestyle business. The company is organized broadly into media and merchandising groups, each of which has specific products and product groups. Layered on top of this structure are teams of lifestyle

International Organization

There are several types of **international organizational structures** that have emerged as competition on





All the signs at this 8000 square metre store in Numazu identify it as a Seiyu outlet run by Japan's fifth-largest supermarket chain. However, Wal-Mart owns 38 percent of Seiyu, and this giant store is part of Wal-Mart's effort to enter the world's second-largest retail market.

Danone Group, for instance, has two major product groups: dairy products (Danone yogurt), and bottled water (Evian). Danone's structure does not differentiate internationally, but rather integrates global operations within each product group.¹⁷

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 any consideration of national boundaries. Until a few years ago, for example, General Electric (GE) kept its international business operations as separate divisions. Now, however, the company functions as one integrated global organization.

a global scale becomes more intense and companies experiment with the ways in which they might respond. For example, when Walmart opened its first store outside the United States in the early 1990s, it set up a special projects team to handle the logistics. As more stores were opened during the next decade, the firm created a small international department to handle overseas expansion. By then, however, international sales and expansion had become such a major part of Walmart's operations that the firm created a separate international division headed up by a senior vice-president. International operations are now so important to Walmart that the international division has been further divided into geographic areas where the firm does business, such as Mexico and Europe. Walmart's structure is of the general type shown in Figure 7.5.

GE businesses around the world connect and interact with each other constantly, and managers freely move back and forth among them.¹⁸

Another kind of "structure" is described in the boxed insert entitled "Green Structures."

Other companies have adopted variations of the basic international structure. The French food giant

Organizational Design for the Twenty-First Century

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

Figure 7.5
International division structure.



Boundaryless Organization

The *boundaryless organization* is one in which traditional boundaries and structures are minimized or eliminated altogether. For example, General Electric's fluid organizational structure, in which people, ideas, and information flow freely between businesses and business groups, approximates this concept. Similarly, as firms partner with their suppliers in more efficient ways, external boundaries disappear. Some of Walmart's key suppliers are tied directly into the retailer's information system. As a result, when Walmart distribution centres start running low on, say, Wrangler blue jeans, the manufacturer receives

Green Structures

The term “organizational structure” is commonly used to explain *theoretical* concepts like departmentalization, authority, responsibility, and the hierarchical patterns within organizations. But organizations also need *physical* structures like offices and factories to do their work, and managers in both the public and private sector are beginning to realize that their physical structures present significant opportunities to be eco-friendly. In Charlottetown, P.E.I., for example, a federal government office building has been constructed with photovoltaic panels that produce 8–10 percent of the building’s power needs. Delta Whistler Village Suites installed a hybrid heating system that has reduced greenhouse gases by 45 percent and saved the hotel \$70 000 in energy costs. At the University of Toronto, over 90 percent of the heating requirements for the engineering and computer science building are being recovered from a nearby boiler plant.

Manitoba Hydro’s new building in Winnipeg contains a geothermal heating and air conditioning system that provides 100 percent of the energy needed to air-condition the building in the summer and 60 percent of the energy needed to heat the building in winter. The building is so energy efficient that it uses just 91 kilowatt hours of energy per square metre of floor space (the Model National Energy Code standards say that a building should not use more than 295 kilowatt hours). In 2009, the building won the Council on Tall Buildings and Urban Habitat’s Best Tall Building award for the Americas. The Council gives only four such awards each year—one for the Americas, one for Asia and

Australia, one for Europe, and one for the Middle East and Africa.

Sunova Credit Union’s branch in Oak Bank, Manitoba, received the Platinum (highest) rating from the Leadership in Energy and Environmental Design (LEED) organization. Some automobile dealers are also seeking certification from LEED for buildings at their dealerships, and LEED standards were important in the planning of the facilities and venues for the 2010 Winter Olympics in B.C.

Some architects think that over the next decade it may be possible to have buildings that require no energy at all from public utilities. Gerrit de Boer, president of Toronto-based Idomo Furniture Company, says that his firm will be “off the grid” within 10 years as a result of the geothermal heating system and the photovoltaic solar array that are being installed in the company’s 200 000-square-foot building.

Critical Thinking Questions

1. What are the advantages of “green” buildings? Are there any disadvantages? Explain.
2. Consider the following statement: “*It is very expensive to build eco-friendly buildings, so expenditures like these should generally not be made. Rather, companies should focus on upgrading their production facilities so they can make higher quality, lower-priced products for consumers and more profits for their shareholders.*” Do you agree or disagree with the statement? Explain your reasoning.

the information as soon as the retailer does. Wrangler proceeds to manufacture new inventory and restock the distribution centre without Walmart having to place a new order.

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. At Cypress Semiconductor, units or groups that become large are simply split into smaller units. Not surprisingly, the organization is composed entirely of small units. This strategy allows each unit to change direction, explore new ideas,

and try new methods without having to deal with a rigid bureaucratic superstructure. Although few large organizations have actually reached this level of adaptability, Apple and Xerox are among those moving toward it.

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

INFORMAL ORGANIZATION A network of personal interactions and relationships among employees unrelated to the firm's formal authority structure.

temporary workforce changes in parallel, with some people leaving the organization and others entering it. Facilities and subcontracted services also change. In other words, the virtual organization exists only in response to its own needs.

Global Research Consortium (GRC) is a virtual organization. GRC offers research and consulting services to firms doing business in Asia. As clients request various services, GRC's staff of three permanent employees subcontracts the work to an appropriate set of several dozen independent consultants and/or researchers with whom it has relationships. At any given time, therefore, GRC may have several projects underway and 20 or 30 people working in various capacities. As the projects change, so does the composition of the organization. Figure 7.6 illustrates the basic structure of a virtual organization.

Learning Organization

A *learning organization* facilitates the lifelong learning and personal development of all of its employees while continually transforming itself to respond to changing demands and needs. The most frequent goals are improved 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.



Figure 7.6
The virtual organization.

In recent years, many different organizations have implemented this approach on various levels. Shell, for example, purchased an executive conference centre called the Shell Learning Center. The facility boasts state-of-the-art classrooms and instructional technology, lodging facilities, a restaurant, and recreational amenities such as a golf course, swimming pool, and tennis courts. Line managers at the firm rotate through the centre and serve as teaching faculty. All Shell employees routinely attend training programs, seminars, and related activities, gathering the latest information they need to contribute more effectively to the firm.

LO-5 The Informal Organization

The formal organization of a business is the part that can be seen and represented on the organization chart. The structure of a company, however, is not limited to the organization chart and the formal assignment of authority. Frequently, the **informal organization**—the everyday social interactions among employees that transcend formal jobs and job interrelationships—effectively alters a company's formal structure. Indeed, the informal organization is sometimes more powerful than the formal structure. The team ethics exercise at the end of this chapter presents an interesting situation that illustrates the informal organization.

Is the informal organization good or bad? On the positive side, the informal organization can help employees feel that they "belong," and it gives them an outlet for "letting off steam" in a safe environment. It also provides information that employees are interested in hearing. On the negative side, the informal organization can reinforce office politics that put the interests of individuals ahead of those of the company. Likewise, a great deal of harm can be caused by distorted or inaccurate information communicated without management input or review. For example, if the informal organization is generating false information about impending layoffs, valuable employees may act quickly (and unnecessarily) to seek other employment. Two important elements of the informal organization are *informal groups* and the *organizational grapevine*.

Informal Groups *Informal groups* are simply groups of people who decide to interact among themselves even though they may not be required to do so by the formal organization. They may be made up of people who work together in a formal sense or who simply get together for lunch, during breaks, or after work. They may talk about business, the boss,



GRAPEVINE

An informal communications network that carries gossip and other information throughout an organization.

The grapevine is a powerful communications network in most organizations. These workers may be talking about any number of things—an upcoming deadline on an important project, tonight’s hockey game, the stock market, rumours about an impending takeover, gossip about who’s getting promoted, or the weather.

or non-work related topics such as families, movies, or sports. For example, at the New York Metropolitan Opera, musicians and singers play poker during the intermissions. Most pots are in the \$30 to \$40 range. Luciano Pavarotti, the famed tenor, once played (he lost big).¹⁹

The Organizational Grapevine The **grapevine** is the informal communication network that runs through the entire organization.²⁰ The grapevine is found in *all* organizations, and it does not always follow the same patterns as formal channels of authority and communication. Formerly, when people gathered around the water cooler or on the golf course to exchange gossip and pass on information, they had names and faces. But with the internet (a worldwide grapevine), you may not know who you are talking to, or how reliable the person providing the information is.²¹

Because the grapevine typically passes information orally, messages may become distorted in the process. In addition to miscommunication and attempts by some people to manipulate it for their own ends, the grapevine

may carry rumours with absolutely no basis in fact. Such rumours are most common when there is a complete lack of information. Human nature abhors a vacuum and the grapevine may fill the vacuum with *something*, even if that something is just rumours. Baseless rumours can be very hard to kill, however.

Attempts to eliminate the grapevine are fruitless, but managers do have at least some control over it. By maintaining open channels of communication and responding vigorously to inaccurate information, they can minimize the damage the grapevine can do. In fact, the grapevine can actually be an asset. By getting to know the key people who are part of the grapevine, the manager can partially control the information received and use the grapevine to determine employee reactions to new ideas (e.g., a change in human resource policies or benefit packages). Wise managers will tune in to the grapevine’s message because it is often a corporate early-warning system. Ignoring this valuable source of information can cause managers to be the last to know that they are about to get a new boss, or that they have a potentially fatal image problem.



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Summary of Learning Objectives

1. **Discuss the elements that influence a firm's organizational structure.** Every business needs structure to operate. *Organizational structure* varies according to a firm's mission, purpose, and strategy. Size, technology, and changes in environmental circumstances also influence structure. In general, while all organizations have the same basic elements, each develops the structure that contributes to the most efficient operations.
 2. **Explain how specialization and departmentalization are the building blocks of organizational structure.** As a firm grows, it usually has a greater need for people to perform specialized tasks (specialization). It also has a greater need to group types of work into logical units (departmentalization). Common forms of departmentalization are *customer, product, process, geographic, and functional*. Large businesses often use more than one form of departmentalization.
 3. **Distinguish between responsibility and authority and explain the differences in decision making in centralized and decentralized organizations.** *Responsibility* is the duty to perform a task, while *authority* is the power to make the decisions necessary to complete tasks. *Delegation* begins when a manager assigns a task to a subordinate; *accountability* means that the subordinate must complete the task. *Span of control* refers to the number of people who work for a manager. The more people supervised by a manager, the wider his or her span of control. Wide spans are usually desirable when employees perform simple or unrelated tasks. When jobs are diversified or prone to change, a narrower span is generally preferable.
In a *centralized organization*, only a few individuals in top management have real decision-making authority. In a *decentralized organization*, much authority is delegated to lower-level management. Where both *line* and *line-and-staff* authority exist
- in an organization, *line departments* generally have authority to make decisions while *staff departments* have a responsibility to advise. *Committee and team authority* empowers committees or work teams to make decisions about various aspects of operations.
4. **Explain the differences between functional, divisional, project, and international organization structures, and describe the most popular forms of organizational design.** In a *functional organization*, authority is usually distributed among such basic functions as marketing and finance. In a *divisional organization*, the various divisions operate in a relatively autonomous fashion. In *project organization*, a company creates project teams to address specific problems or to complete specific projects. A company that has divisions in many countries may require an additional level of *international organization* to coordinate those operations. Four of the most popular forms of organizational design are (1) boundaryless organizations (traditional boundaries and structures are minimized or eliminated), (2) team organizations (relying on project-type teams, with little or no functional hierarchy), (3) virtual organizations (which have little formal structure and only a handful of permanent employees, a small staff, and a modest administrative facility), and (4) learning organizations (which facilitate employees' lifelong learning and personal development while transforming the organization to meet changing demands and needs).
 5. **Understand how the informal organization is different from the formal organization.** The *informal organization* consists of the everyday social interactions among employees that transcend formal jobs and job interrelationships. The informal organization exists within the formal structure of every organization and cannot be suppressed. Effective managers work with the informal organization and try to harness it for the good of the formal organization.

Questions and Exercises

Questions for Analysis

1. Explain the significance of size as it relates to organizational structure. Describe the changes that are likely to occur as an organization grows.
2. Why do some managers have difficulties in delegating authority? Why does this problem tend to plague smaller businesses?

- Describe a hypothetical organization structure for a small printing firm. Describe changes that might be necessary as the business grows.
- 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?
- If a company has a formal organization structure, why is the informal organization so important?
- The argument has been made that, compared to the functional organization structure, the divisional structure does a better job of training managers for top-level positions. Do you agree or disagree with this argument? Explain your reasoning.

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Application Exercises

- Draw up an organization chart for your college or university.
- Consider the organization where you currently work (or one where you previously worked). Which of the four basic structural types was it most consistent with (functional, divisional, project, international)? What was the basis of departmentalization in the organization? Why was that particular basis used?
- Interview the manager of a local service business (for example, a fast-food restaurant). What types of tasks does this manager typically delegate? Is the appropriate authority also delegated in each case? What problems occur when authority is not delegated appropriately?
- Review the discussion of intrapreneurs in Chapter 4. Then 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?

TEAM EXERCISES

Building Your Business Skills

Getting with the Program

Goal

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

Situation

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?

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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

To Poach, or Not to Poach

- Manager of both teams
- Hails investor

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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

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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

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Action Steps

1. Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, decide whether 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, determine 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?

Structure Evolves at Frantic Films

Frantic Films is a Winnipeg-based film and TV production company. Shortly after its founding in 1997, the company was named one of Canada's Hottest 50 Start-Ups by *Profit* magazine. By 2004, it ranked twenty-third on the list of Canada's fastest-growing companies, and in 2005 it ranked fifth on the list of Manitoba's fastest-growing companies. Frantic has also received numerous awards; a partial list includes the following:

- National Research Council recognition as a Canadian innovation leader
- Lions Gate Innovative Producers Award
- New Media Visionary Award nomination
- Blizzard Award (for the documentary series *Quest for the Bay*)
- Finalist for the Ernst & Young Entrepreneur of the Year Award (multiple years)

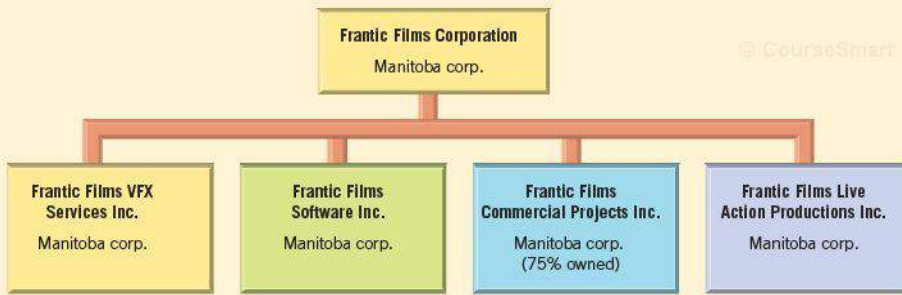
Frantic Films started as a private corporation that was owned and managed by three principal shareholders—

Jamie Brown (chief executive officer), Chris Bond (president), and Ken Zorniak (chief operating officer). It originally had three divisions—visual effects, live action, and TV commercials—(see Figure 7.7), but the visual effects division was sold in 2007.

The TV commercial division (Frantic Films Commercial Projects Inc.) produces television commercials for local Winnipeg companies, as well as for national and international clients. It also provides visual effects for commercials produced by other companies. The writers, producers, designers, composers, animators, and editors create award-winning spots for local, national, and international companies as diverse as the Royal Winnipeg Ballet, the Disney Channel, and Procter & Gamble Canada.

The live action division (Frantic Films Live Action Productions Inc.) produces and owns programs that are broadcast in over 40 countries. The division first develops the ideas for a program, then promotes the idea to broadcasters and financiers. If there is a strong





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Figure 7.7
Organization
chart for Frantic
Films.

interest, a budget is provided and the division produces the program. Frantic has produced documentary programs such as *Pioneer Quest* (one of the highest rated documentary series ever broadcast on a Canadian specialty channel), lifestyle series (*'Til Debt Do Us Part*), television movies (*Zeyda and the Hitman*), and feature films (*Lucid*). Once a program is completed, rights are transferred to the releasing company and the individual, single-purpose production companies created for each show are wound up.

Until 2007, the *visual effects* division (Frantic Films VFX Services Inc.) produced visual effects for TV and movies. Using visual effects software packages such as Maya, Houdini, Fusion, and 3ds Max, the division established a reputation as one of the top visual effects providers in North America. The majority of the employees at Frantic were in this division. Its output included visual effects for films like *Superman Returns*, *Stay*, *X-Men 3*, *The Italian Job*, *Catwoman*, *The Core*, *Swordfish*, *Mr. Magorium's Wonder Emporium*, and *Across the Universe*. The division used a matrix structure to complete film projects. This meant that a project team, made up of specialists in areas like 3D animation, 2D animation, compositing, and hardware/software support, was put together. When the project was completed, the team disbanded and its members were assigned to other projects. These teams were typically given specific goals to achieve, and then the team members used their technical expertise to decide how they could best achieve the goal.

Recently, a software division has been created (Frantic Films Software Inc.). It employs seven individuals with specialized expertise, some of whom are computer science grads. When software division employees discovered that off-the-shelf software did not meet their needs, they began creating their own new stand-alone software to enhance certain visual effects like virtual water and smoke. This software was used to create the fluid-based character Tar Monster in the movie *Scooby-Doo II*.

Each of the divisions at Frantic Films operates fairly independently, but the company is still small enough that individuals from one division sometimes get involved in decisions in other divisions. For example, since the company does not have a marketing vice-president,

marketing decisions are often made jointly by Brown, Bond, and Zorniak for each of the divisions.

In 2007, the visual effects division was sold to Prime Focus Ltd., a leader in India's post-production and visual effects services. Office space and a receptionist are now shared with Prime Focus. Jamie Brown says the change will allow the company to get a larger slice of the visual effects pie by pooling its resources with those of Prime Focus. At about the same time as the visual effects division was sold, it was announced that COO Ken Zorniak and president Chris Bond would remain with the company as employees, not owners.

When the company was first formed, the authority structure was quite centralized because the principal shareholders had both the expertise to make decisions and the motivation to do so. But Brown thinks it is important to increase the involvement of lower-level workers in decisions, so he is trying to delegate more authority to them. Some progress has been made in this area. For example, managers in some of the divisions were given the authority to spend up to \$5000 without having to get the approval of top management. This change was made because the top managers found that they were spending too much time discussing whether to approve requests for relatively small amounts of money. So, they essentially delegated more authority to division managers by giving them the discretion to make spending decisions. Brown also encourages employees to make recommendations on various issues to top management. He recognizes that giving employees more discretion can sometimes lead to less-than-optimal decisions, but he also wants to give people more experience in making decisions that affect the company.

Like all rapidly growing companies, Frantic Films has experienced certain growing pains with regard to its organizational structure. For example, offices were set up in California and British Columbia to get more visual effects business in those local areas, but until recently, there have not been dedicated salespeople responsible for generating work there. While employees in those offices have been fully employed, they are more costly. The original idea was to have them obtain work that could be sent to the lower-cost Winnipeg office, but more work is being done by a growing workforce in the satellite offices.

Top management is now in the process of determining the changes that are needed to make the organization's structure more effective.

Another structural issue is the division of duties between Brown, Bond, and Zorniak. When the company first formed, all three principals were involved in decision making for all the divisions. But as the company grew, each individual gradually became more focused. For example, Brown had primary responsibility for the live action division, while Zorniak and Bond had primary responsibility for the visual effects division.

Questions for Discussion

1. What are the four basic types of organizational structures? Which of these basic structural types seems most like the structure that Frantic Films has adopted?
2. What are the advantages and disadvantages of the organizational structure at Frantic Films?
3. What is the difference between a centralized company and a decentralized company? Where is Frantic Films positioned on the centralization-decentralization continuum? Explain.

