Part 3

Organizing

Designing Adaptive Organizations

Chapter 9

CHAPTER OUTLINE

STUDENT RESOURCES

ThomsonNOW On the Job and Biz Flix video applications, concept tutorial, and concept exercise

Xtra! Four exhibit worksheets, three author FAQs, quiz, Management News, and video clips from the chapter with exercises

Web (http://williams.swlearning.com) Quiz, PowerPoint slides, and glossary terms for this chapter

Yahoo Headquarters, Sunnyvale, California.[1] A $100 million loss, plummeting advertising sales, a stock price that has fallen from an all-time high of $237 to less than $10 per share, layoffs that cost 800 people, including the previous CEO, their jobs—welcome to Yahoo. At this once phenomenally successful company, so many basic things have gone wrong that the question is, where do you start to fix it?

One key problem is the organizational structure: with just 3,200 employees, Yahoo has 44 different business units. Forty-four! Even General Electric, with 300,000 employees, has only 13. You think to yourself, "This is unmanageable, too many people and no focus." And amazingly, despite having 44 business units, Yahoo doesn't have a direct sales unit. No one, it turns out, is responsible for cultivating customers. Why not? Well, during the "go-go" days, customers were literally throwing themselves and their advertising dollars at the company. As one Yahoo manager said, "The fish were jumping into the boat." Consequently, most orders took place via email. Yahoo didn't have to establish relationships with customers because customers came to it. Unfortunately, this led to arrogance. Jeff Bell, a vice president at one of Yahoo's potential customers, DaimlerChrysler, said the message was, "Buy our stuff [meaning Yahoo's advertising], and shut up." Jeff Mallett, Yahoo's former president, said, "We ran Yahoo to optimize market share. I make no apologies for that. If there was a company that didn't get it [Internet advertising], we moved on very quickly."

What Would You Do?

Another problem was the overly creative, freewheeling, spontaneous company culture in which everyone, including the CEO, worked in cubicles. The problem wasn't so much the cubicles, but what they came to represent: an overly informal culture with no controls. At Yahoo, employees played soccer in a large open space outside the company boardroom, even while the board was meeting. Furthermore, no one had an overall perspective of what was best for the entire company. Consequently, said one Yahoo vice president, "[Unit] managers would beg, borrow, and steal from the network [meaning the overall company] to help their own properties." Plus, if you had an idea, you pursued it without having to get anyone's feedback or approval. Yahoo's chief operating officer said, "Yahoo's original mission was to grow as fast as you can and put things out there and see what works." The more serious problem, he said, was that "nobody knew what would work." The most amazing aspect of this culture was that, as one manager explained, "There was a fair amount of resistance toward the strategy of monetizing our businesses." In other words, the culture at Yahoo was so informal, so unfocused, and so freewheeling that no one really worried about whether the company could charge for the services it provided and make a profit. "There was a fear," said this manager, "that if all of our efforts were put into profit making, we'd starve research and development and lose our innovation."

Well, back to the original question: With so many basic things wrong, where do you start? With 44 different business units, one clear place to start is by restructuring the organization. But what structure should Yahoo adopt? Should it be a functional, customer, product, geographic, or matrix structure, and why? Second, what should you do about the informal organizational culture, part of which is critical to innovation and attracting and retaining topflight employees? But, to be effective in the long run, Yahoo and its culture need to "grow up." But what does that mean? Finally, too many unrelated decisions are being made by too many unrelated people in the company without any regard for what's best for the entire company. How can you deal with that problem without squeezing the entrepreneurial thinking and energy out of the company? **If you were in charge at Yahoo, what would you do?**

STUDY TIP

Take advantage of all the review opportunities on Williams Xtra! Write up a list of questions you have about concepts you don't understand and visit your professor or TA during office hours.

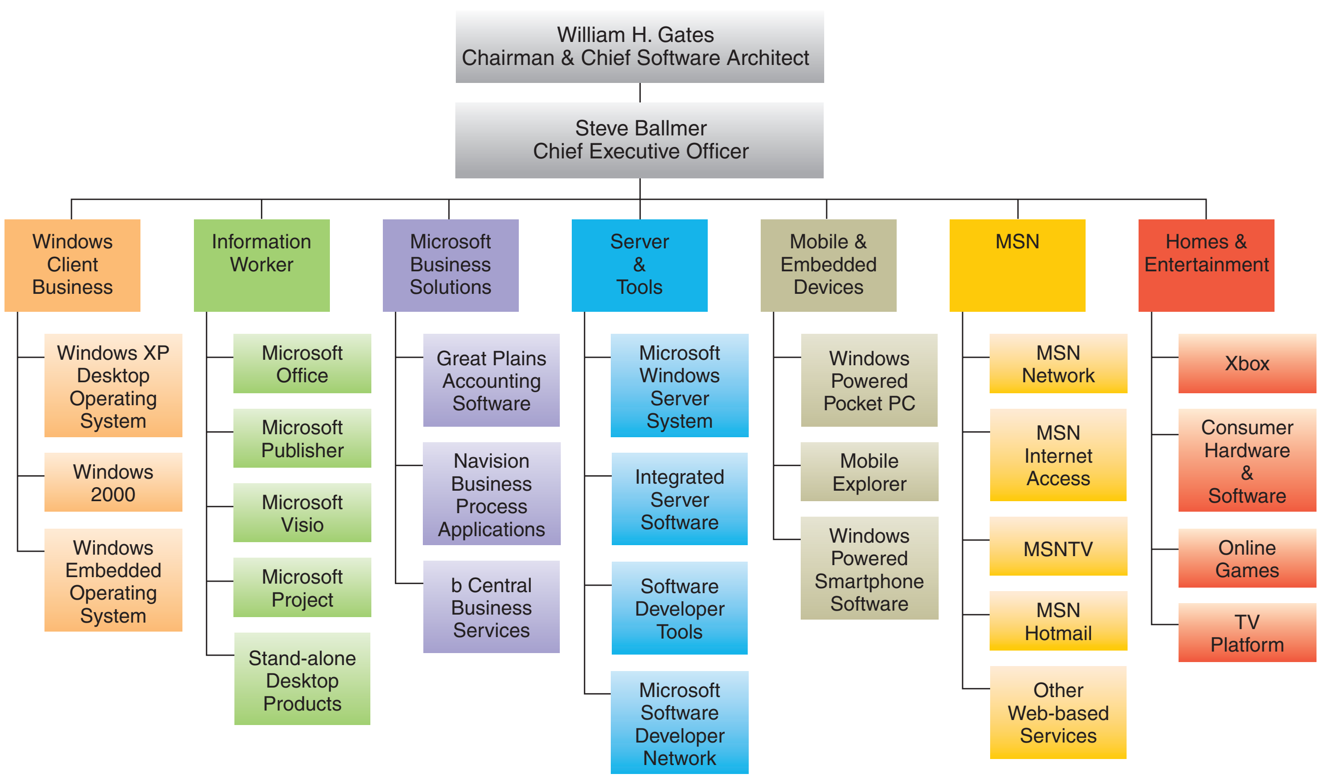
No one builds a house without first looking at the design. Put a window there. Take out a wall here. Soon you've got the design you want. Only then do you start building. These days, the design of a company is just as important as the design of a house. As Yahoo's case shows, even the most successful companies can encounter problems if they don't have the right design.

organizational structure The vertical and horizontal configuration of departments, authority, and jobs within a company.

This chapter begins by reviewing the traditional organizational structure approach to organizational design. **Organizational structure** is the vertical and horizontal configuration of departments, authority, and jobs within a company. For example, Exhibit 9.1 shows Microsoft's organizational chart. From this chart, you can see the vertical dimensions of the company—who reports to whom, the number of management levels, who has authority over what, and so forth. Founder Bill Gates is the chairman and chief software architect. In this role, Gates focuses on Microsoft's product and technology strategies. CEO Steve Ballmer reports directly to him.[2] Seven group vice presidents, each responsible for one of Microsoft's seven core businesses, report directly to Ballmer. In turn, each group vice president oversees a number of divisions. For instance, the group vice president for Information Worker works with managers and employees to develop and improve Microsoft's Office Suite (Word, Excel, PowerPoint, Outlook, and Access), Microsoft Publisher (for business publishing and marketing materials), Microsoft Visio (for drawing and diagramming business and technical concepts), Microsoft Project (project management software), and stand-alone desktop products.

The organizational chart also displays Microsoft's horizontal dimensions—who does what jobs, the number of different departments, and so forth. For instance, in addition to Information Worker, Microsoft's groups include Windows Client (where software such as Windows XP is written); Business Solutions (accounting and portals); Server and Tools (server software and development tools); Mobile and Embedded Devices (software for handheld computers and mobile phones); MSN (the MSN online network, Internet

Exhibit 9.1
Microsoft Corporation's Organizational Chart



Source: "Our Commitment to Our Customers: The Business of Microsoft," *Microsoft*, [Online] available at **http://www.microsoft.com/mscorp/articles/business.asp**, 30 April 2005.

access, TV, Hotmail email services, and other Web-based services); and Homes and Entertainment (Xbox game machine, consumer products, online games, and software for TVs). In the first half of the chapter, you will learn about the traditional vertical and horizontal approaches to organizational structure, including departmentalization, organizational authority, and job design.

In the second half of the chapter, you will learn how contemporary organizations are becoming more adaptive by redesigning their internal and external processes. An **organizational process** is the collection of activities that transform inputs into outputs that customers value.[3] For example, Exhibit 9.2 shows the basic internal and external processes that Microsoft uses to write computer software. The process starts when Microsoft gets feedback from customers through Internet newsgroups, email, phone calls, or letters. This information helps Microsoft understand customers' needs and problems and identify important software issues and needed changes and functions. Microsoft then rewrites the software, testing it internally at the company and then externally through its beta-testing process. In beta testing, early versions of software are distributed to beta testers (i.e., customers who volunteer or are selected by Microsoft), who give the company extensive feedback, which is then used to make improvements. The beta-testing process may take as long as a year and involve thousands of customers. After "final" corrections are made to the software, the company distributes and sells it to customers, who start the process again by giving Microsoft more feedback.

organizational process
The collection of activities that transform inputs into outputs that customers value.

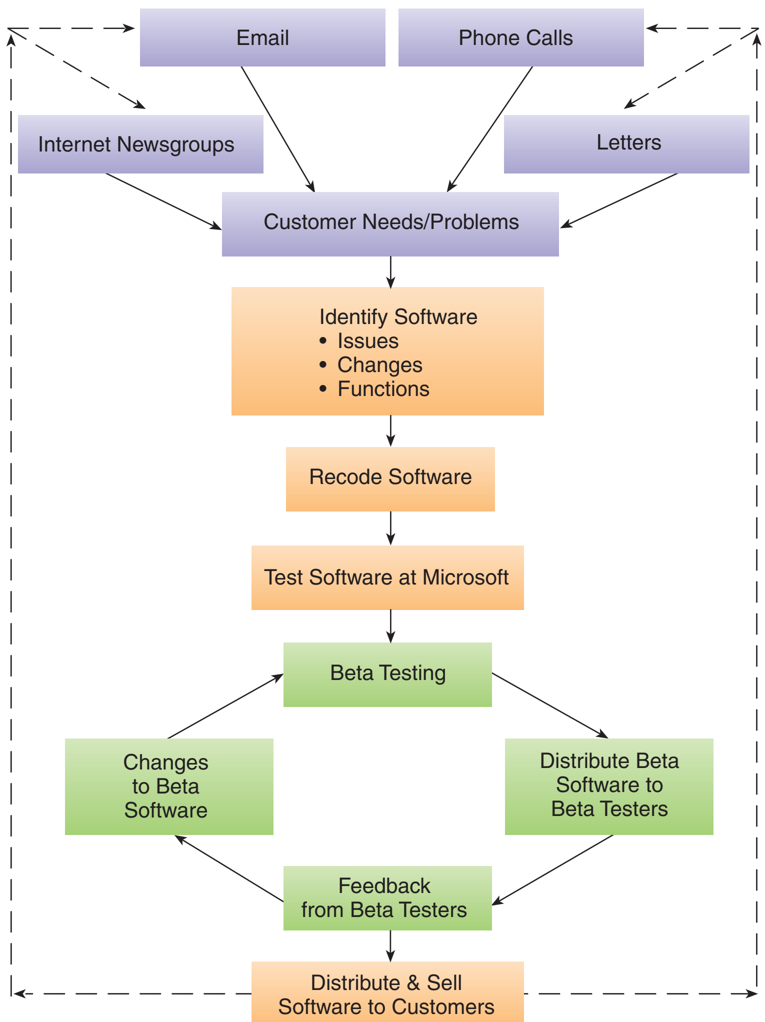


Exhibit 9.2
Process View of Microsoft's Organization

This process view of Microsoft, which focuses on how things get done, is very different from the hierarchical view of Microsoft (go back to Microsoft's organizational chart in Exhibit 9.1), which focuses on accountability, responsibility, and positions within the chain of command. In the second half of the chapter, you will learn how companies are using reengineering, empowerment, and behavioral informality to redesign their internal organizational processes. The chapter ends with a discussion about the ways in which companies are redesigning their external processes, that is, how they are changing to improve their interactions with those outside the company. In that discussion, you will explore the basics of modular and virtual organizations.

Designing Organizational Structures

With offices and operations in 58 countries, products in over 200, and more than 150,000 employees worldwide, SaraLee sells some of the best-known brands (SaraLee Foods, Hillshire Farms, and Hanes underwear) in the world. Nevertheless, in hopes of improving company performance, SaraLee is changing its organizational structure to focus on three key customer/geographic markets: North American retail (bakery, packaged meats, and Senseo coffee retail stores), North American Foodservice (bakery goods, and coffee and meats food services), and SaraLee International (bakery and beverage businesses outside North America and global household products). As a result of the restructuring, SaraLee will also sell its $1.1 billion European meats business, its $450 million direct selling business, and its $300 million retail coffee business (Chock Full o'Nuts, Hills Bros., etc.).[4]

Why would a large company like SaraLee with 150,000 employees and $20 billion in annual revenues completely restructure its organizational design? What does it expect to gain from this change?

After reading the next three sections, you'll have a better understanding of the importance of organizational structure because you should be able to

1. describe the departmentalization approach to organizational structure.
2. explain organizational authority.
3. discuss the different methods for job design.

1 DEPARTMENTALIZATION

departmentalization Subdividing work and workers into separate organizational units responsible for completing particular tasks.

Traditionally, organizational structures have been based on some form of departmentalization. **Departmentalization** is a method of subdividing work and workers into separate organizational units that take responsibility for completing particular tasks.[5] For example, Sony Corporation has separate departments or divisions for electronics, music, movies, computer games and game consoles, and theaters.[6] Likewise, Bayer, a German-based company, has separate departments or divisions for health care, agriculture, polymers, and plastics.[7]

Traditionally, organizational structures have been created by departmentalizing work according to five methods: **1.1 functional, 1.2 product, 1.3 customer, 1.4 geographic,** and **1.5 matrix.**

1.1 Functional Departmentalization

functional departmentalization Organizing work and workers into separate units responsible for particular business functions or areas of expertise.

The most common organizational structure is functional departmentalization. Companies tend to use this structure when they are small or just starting out. **Functional departmentalization** organizes work and workers into separate units responsible for particular business functions or areas of expertise. For example, a common set of functions would consist of accounting, sales, marketing, production, and human resources departments.

Not all functionally departmentalized companies have the same functions, however. For example, Exhibit 9.3 shows functional structures for an insurance company and an advertising agency. As the orange boxes indicate, both companies have sales, accounting, human resources, and information systems departments. The purple and green boxes indicate the functions that are different. As would be expected, the insurance company has separate departments for life, auto, home, and health insurance. By contrast, the advertising agency has departments for artwork, creative work, print advertising, and radio advertising. So the kind of functional departments in a functional structure depends, in part, on the business or industry a company is in.

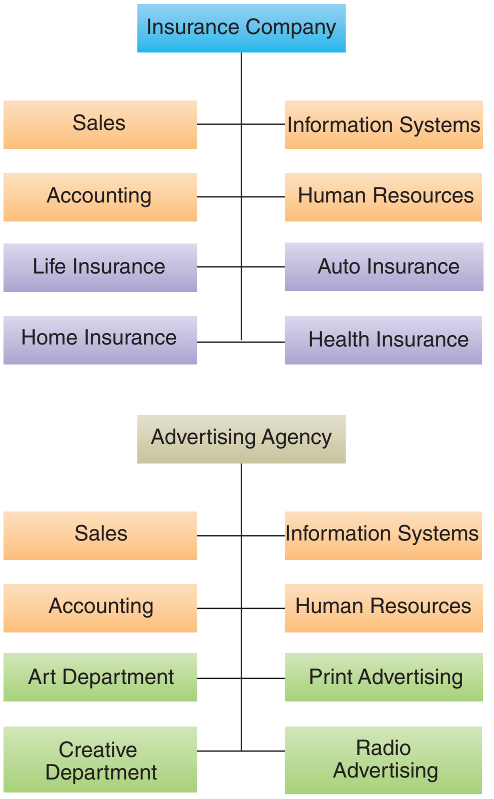


Exhibit 9.3
Functional Departmentalization

Functional departmentalization has some advantages. First, it allows work to be done by highly qualified specialists. While the accountants in the accounting department take responsibility for producing accurate revenue and expense figures, the engineers in research and development can focus their efforts on designing a product that is reliable and simple to manufacture. Second, it lowers costs by reducing duplication. When the engineers in research and development come up with that fantastic new product, they don't have to worry about creating an aggressive advertising campaign to sell it. That task belongs to the advertising experts and sales representatives in marketing. Third, with everyone in the same department having similar work experience or training, communication and coordination are less problematic for departmental managers.

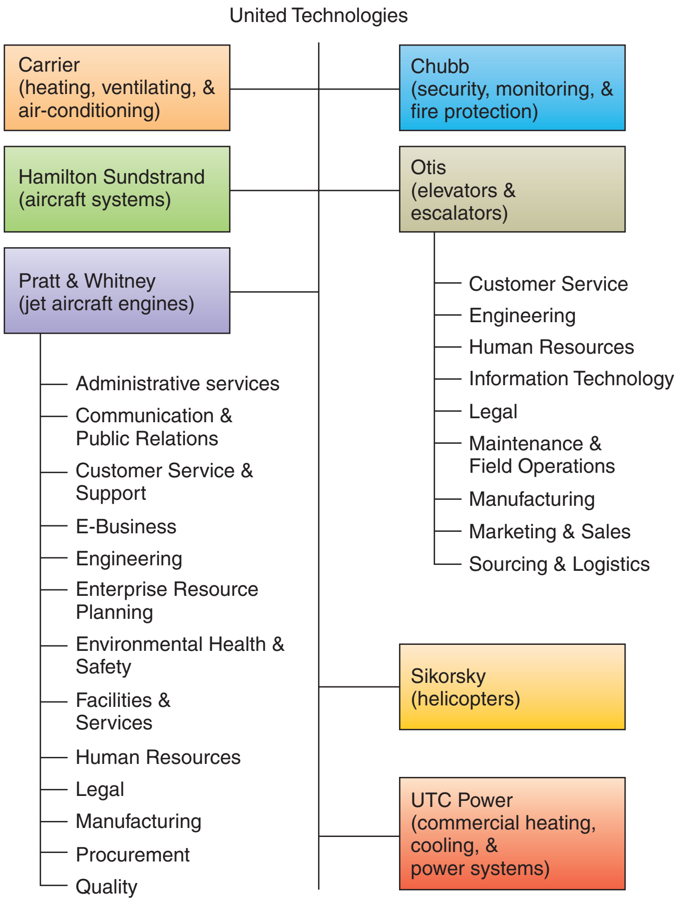
At the same time, functional departmentalization has a number of disadvantages, too. To start, cross-department coordination can be difficult. Managers and employees are often more interested in doing what's right for their function than in doing what's right for the entire organization. A good example is the traditional conflict between marketing and manufacturing. Marketing typically pushes for spending more money to make more products with more accessories and capabilities to meet customer needs. By contrast, manufacturing pushes for fewer products with simpler designs so that manufacturing facilities can ship finished products on time and keep costs within expense budgets. As companies grow, functional departmentalization may also lead to slower decision making and produce managers and workers with narrow experience and expertise.

1.2 Product Departmentalization

Product departmentalization organizes work and workers into separate units responsible for producing particular products or services. Exhibit 9.4 shows the product departmentalization structure used by United Technologies. United Technologies is organized along seven different product lines: Carrier (heating, ventilating, and air-conditioning); Chubb (security, monitoring, and fire protection systems); Hamilton Sundstrand (aircraft electrical power generation and distribution systems); Otis (design, manufacture, installation, maintenance, and servicing of elevators and escalators); Pratt & Whitney (commercial and military jet aircraft engines); Sikorsky (military and commercial helicopters); and UTC Power (heating, cooling, and power systems for commercial and industrial applications and fuel cell systems).[8]

product departmentalization
Organizing work and workers into separate units responsible for producing particular products or services.

One of the advantages of product departmentalization is that, like functional departmentalization, it allows managers and workers to specialize in one area of expertise. Unlike the narrow expertise and experiences in functional departmentalization, however, managers and workers develop a broader set of



Source: *United Technologies Corporation 2004 Annual Report*, United Technologies, [Online] available at http://www.utc.com/annual_reports/2004/2004_ar.pdf, 1 May 2005.

Exhibit 9.4
Product Departmentalization: United Technologies

experiences and expertise related to an entire product line. Likewise, product departmentalization makes it easier for top managers to assess work-unit performance. For example, because of the clear separation, of their seven different product divisions, it is a relatively straightforward process for United Technologies' top managers to evaluate each division's performance. For instance, United Technologies' Otis elevators product division outperformed its Pratt & Whitney aircraft engines division. The divisions had similar revenues—$8.99 billion for Otis and $8.3 billion for Pratt & Whitney—but Otis had a profit of $1.54 billion (a 17 percent profit margin) compared to just $1.1 billion (a 13 percent profit margin) for Pratt & Whitney.[9] Finally, decision making should be faster because managers and workers are responsible for the entire product line rather than for separate functional departments, and thus there are fewer conflicts (compared to functional departmentalization).

The primary disadvantage of product departmentalization is duplication. For example, you can see in Exhibit 9.4 that the Otis elevators and Pratt & Whitney divisions both have customer service, engineering, human resources, legal, manufacturing, and procurement (similar to sourcing and logistics) departments. Duplication like this often results in higher costs.

A second disadvantage is that it can be difficult to achieve coordination across the different product departments. For example, United Technologies would probably have difficulty standardizing its policies and procedures in product departments as different as the Carrier (heating, ventilating, and air-conditioning) and Sikorsky (military and commercial helicopters) divisions.

1.3 Customer Departmentalization

customer departmentalization
Organizing work and workers into separate units responsible for particular kinds of customers.

Customer departmentalization organizes work and workers into separate units responsible for particular kinds of customers. For example, Exhibit 9.5 shows that Sprint, the telecommunications company, is organized into departments that cater to businesses (local, long-distance, and data and wireless services for U.S. and international businesses); consumers (local, long-distance, and wireless services for individuals, sold separately or bundled together); homes (Sprint Local: local, long-distance, wireless, and high-speed broadband Internet services bundled together for homes where Sprint is the local service provider); and companies requiring supply chain services (North Supply: supply chain integration, logistics networks, distribution centers, and IT systems).[10]

The primary advantage of customer departmentalization is that it focuses the organization on customer needs rather than on products or business functions. Furthermore, creating separate departments to serve specific kinds of customers allows companies to specialize and adapt their products and services to customer needs and problems.

The primary disadvantage of customer departmentalization is that, like product departmentalization, it leads to duplication of resources. Furthermore, as with product departmentalization, it can be difficult to achieve coordination

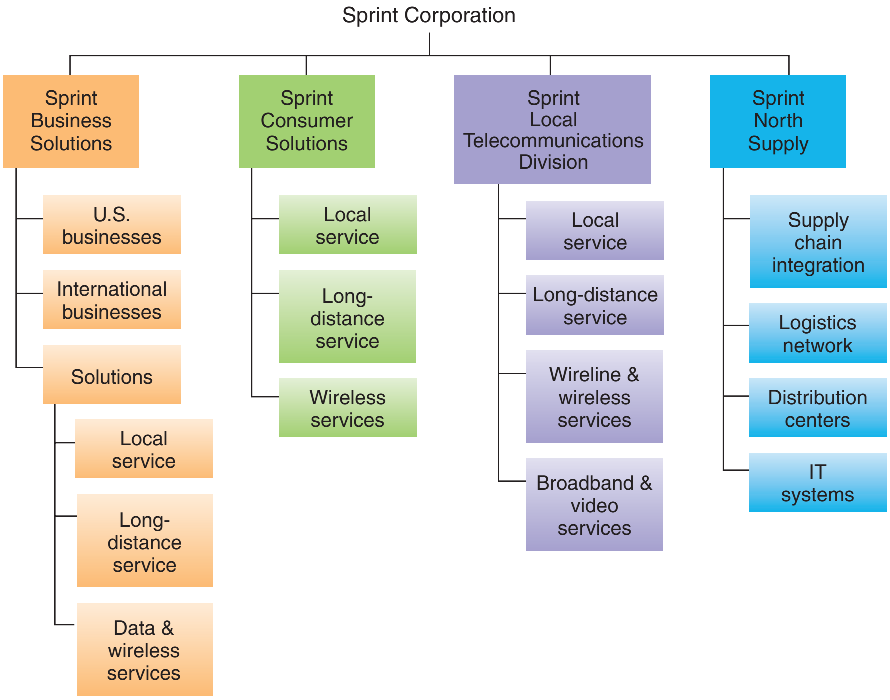


Exhibit 9.5
Customer Departmentalization: Sprint Corporation

Source: "Overview," Sprint, [Online] available at **http://www.sprint.com/sprint/fastfacts/overview/index.html,** 1 May 2005.

across different customer departments. Finally, the emphasis on meeting customers' needs may lead workers to make decisions that please customers but hurt the business.

1.4 Geographic Departmentalization

geographic departmentalization Organizing work and workers into separate units responsible for doing business in particular geographic areas.

Geographic departmentalization organizes work and workers into separate units responsible for doing business in particular geographic areas. For example, Exhibit 9.6 shows the geographic departmentalization used by Coca-Cola Enterprises (CCE), the largest bottler and distributor of Coca-Cola products in the world. (The Coca-Cola Company develops and advertises soft drinks. CCE, which is a separate company with its own stock, buys the soft drink concentrate from the Coca-Cola Company, combines it with other ingredients, and then distributes the final product in cans, bottles, or fountain containers.) As shown in Exhibit 9.6, CCE has two regional groups: North America and Europe. As the table in the exhibit shows, each of these regions would be a sizable company by itself. For example, the European Group alone serves a population of 146 million people in Belgium, Great Britain, France, Luxembourg, Monaco, and the Netherlands; sells one billion cases of soft drinks a year; employs 11,000 people; runs 32 bottling facilities; and has a customer base that drinks an average of 174 soft drinks per year per person.

The primary advantage of geographic departmentalization is that it helps companies respond to the demands of different markets. This can be especially important when the company sells in different countries. For example, CCE's geographic divisions sell products suited to the taste preferences in different countries. CCE bottles and distributes the following products in Europe but not in the United States: Aquarius, Bonaqua, Burn, Canada Dry, Coca-Cola light (which is somewhat different from Diet Coke), Cresta flavors, Five Alive, Kia-Ora, Kinley, Lilt, Malvern, and Oasis.[11] Another advantage is that geographic departmentalization can reduce costs by locating unique organizational resources closer to customers. For instance, it is much cheaper for CCE to build

	POPULATION	PER CAPITA CONSUMPTION(1)	EMPLOYEES	FACILITIES(2)
North American Group	263 M	300	63,000	399
European Group	146 M	174	11,000	32
Total Company	409 M	255	74,000	431

(1) Number of 8-ounce servings consumed per person per year.
(2) Facilities include 18 production, 335 sales/distribution, and 46 combination sales and production plants in North America, and 3 production, 17 sales/distribution, and 12 combination plants in Europe.

Source: "Territories of Operation, 2004 Annual Report," Coca-Cola Enterprises, [Online] available at http://ir.cokecce.com/downloads/ar2004.pdf, 1 May 2005.

Exhibit 9.6
Geographic Departmentalization: Coca-Cola Enterprises

bottling plants in Belgium than to bottle Coke in England and then transport it across the English Channel to Belgium.

The primary disadvantage of geographic departmentalization is that it can lead to duplication of resources. For example, while it may be necessary to adapt products and marketing to different geographic locations, it's doubtful that CCE needs significantly different inventory tracking systems from location to location. Also, even more than with the other forms of departmentalization, it can be difficult to coordinate departments that are literally thousands of miles from each other and whose managers have very limited contact with each other.

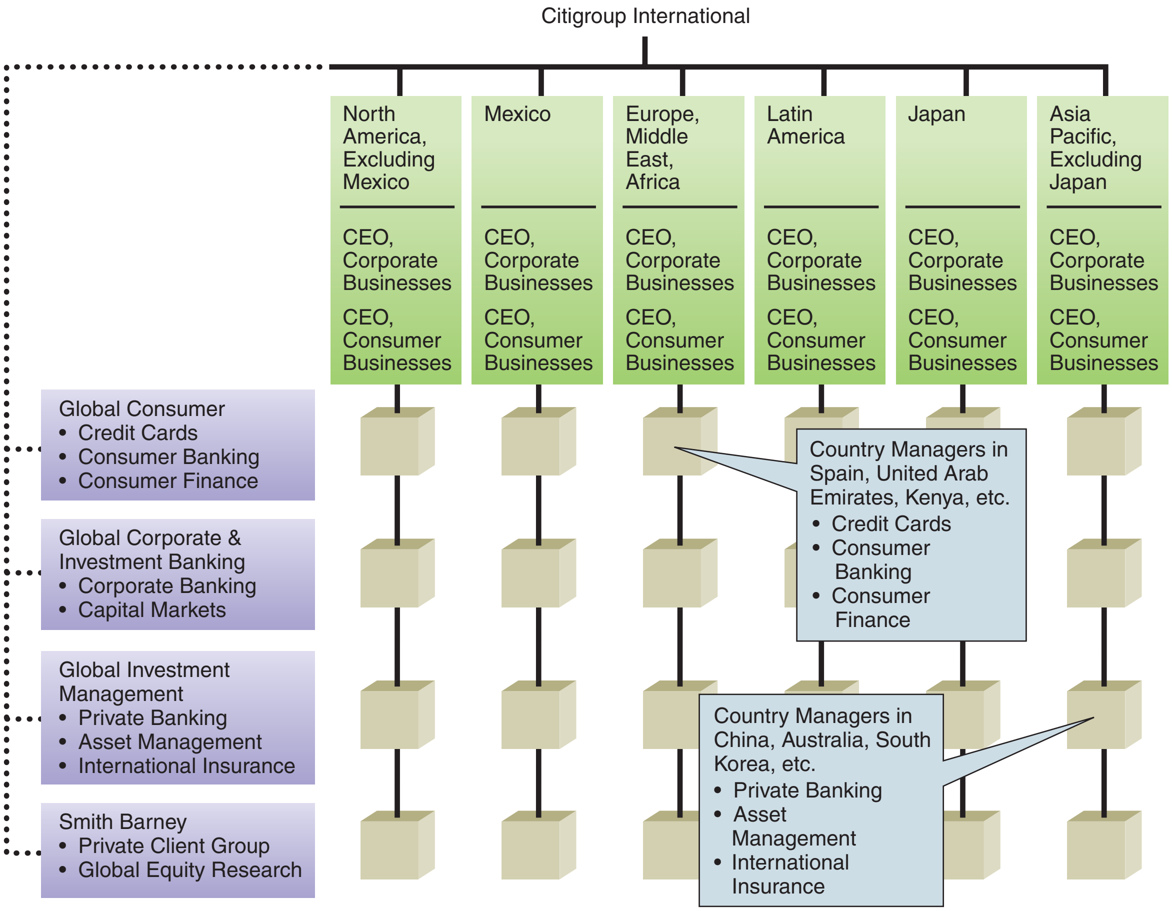
1.5 Matrix Departmentalization

matrix departmentalization
A hybrid organizational structure in which two or more forms of departmentalization, most often product and functional, are used together.

Matrix departmentalization is a hybrid structure in which two or more forms of departmentalization are used together. The most common matrix combines the product and functional forms of departmentalization, but other forms may also be used. Exhibit 9.7 shows the matrix structure used by Citigroup International, which accounts for all of Citigroup's corporate and consumer banking businesses. Across the top of Exhibit 9.7, you can see that the company uses a geographic/customer structure. Country managers, who are responsible for Citigroup business in a particular country (Citigroup has over 100 country managers), report to CEOs for Corporate or Consumer Businesses in their region (North America, excluding Mexico; Mexico; Europe, Middle East, and Africa; Latin America; Japan; Asia Pacific, excluding Japan). Down the left side of the figure, however, notice that the company is using a product structure for global consumers (credit cards, consumer banking, and consumer finance); global corporate and investment banking (corporate banking and capital markets); global investment management (private banking, asset management, and international insurance); and global wealth management (private client group and global equity research).

The boxes in the figure represent the matrix structure, created by the combination of the geographic/customer and product structures. For example, in the global consumer business in Europe, Middle East, and Africa, country managers in Spain, United Arab Emirates, or Kenya are responsible for developing Citigroup's credit card, consumer banking, and consumer finance businesses in those countries. Likewise, in the global investment management business in Asia Pacific, country managers in China, Australia, or South Korea are responsible for developing Citigroup's private banking, asset management, and international insurance businesses in those countries.

Several things distinguish matrix departmentalization from the other traditional forms of departmentalization.[12] First, most employees report to two bosses, one from each core part of the matrix. For example, in Exhibit 9.7, the French country manager responsible for credit cards, consumer banking, and consumer finance would report to the CEO for Consumer Businesses in Europe, Middle East, and Africa and the group vice president for all Global Consumer



Sources: "How Citigroup Is Organized," *Our Businesses*, [Online] available at **http://www.Citigroup.com/Citigroup/business/index.htm**, 1 May 2005; "Citigroup's Regions," *Our Businesses*, [Online] available at **http://www.Citigroup.com/Citigroup/business/regions/index.htm**, 1 May 2005.

Exhibit 9.7
Matrix Departmentalization: Citigroup International

business. Second, by virtue of their hybrid design, matrix structures lead to much more cross-functional interaction than other forms of departmentalization. In fact, while matrix workers are typically members of only one functional department (based on their work experience and expertise), they are also commonly members of several ongoing project, product, or customer groups. Third, because of the high level of cross-functional interaction, matrix departmentalization requires significant coordination between managers in the different parts of the matrix. In particular, managers have the complex job of tracking and managing the multiple demands (project, product, customer, or functional) on employees' time.

The primary advantage of matrix departmentalization is that it allows companies to efficiently manage large, complex tasks like researching, developing, and marketing pharmaceuticals or carrying out complex global businesses such as Citigroup International. Efficiency comes from avoiding duplication. For example, rather than having an entire marketing function for each project, the company simply assigns and reassigns workers from the marketing department as they are needed at various stages of product completion. More specifically, an employee from a department may simultaneously be part of five different ongoing projects, but may be actively completing work on only a few projects at a time.

Another advantage is the pool of resources available to carry out large, complex tasks. Because of the ability to quickly pull in expert help from all the functional areas of the company, matrix project managers have a much more diverse set of expertise and experience at their disposal than do managers in the other forms of departmentalization.

The primary disadvantage of matrix departmentalization is the high level of coordination required to manage the complexity involved with running large, ongoing projects at various levels of completion. Matrix structures are notorious for confusion and conflict between project bosses in different parts of the matrix. At Citigroup, such confusion or conflict might occur between managers in the Global Consumer division and the CEOs of Consumer Businesses in Europe, Middle East, and Africa. Disagreements or misunderstandings about schedules, budgets, available resources, and the availability of employees with particular functional expertise are common. Another disadvantage is that matrix structures require much more management skill than the other forms of departmentalization.

simple matrix
A form of matrix departmentalization in which managers in different parts of the matrix negotiate conflicts and resources.

complex matrix
A form of matrix departmentalization in which managers in different parts of the matrix report to matrix managers, who help them sort out conflicts and problems.

Because of these problems, many matrix structures evolve from a **simple matrix**, in which managers in different parts of the matrix negotiate conflicts and resources directly, to a **complex matrix**, in which specialized matrix managers and departments are added to the organizational structure. In a complex matrix, managers from different parts of the matrix might report to the same matrix manager, who helps them sort out conflicts and problems.

Sometimes, however, even these steps aren't enough to alleviate the problems that can occur in matrix structures. For example, European-based Unilever, maker and marketer of such well-known products as Dove soap, Vaseline Intensive Care lotions, Hellman's mayonnaise, I Can't Believe It's Not Butter, Lipton teas, Wishbone salad dressings, Skippy peanut butter, and Lawry's seasonings, was run using a complex matrix structure. The company even had dual headquarters in Rotterdam in the Netherlands, and London, England. The confusion and conflict associated with having two sets of management located in two headquarters were so great, however, that Unilever has now switched to just one CEO and one headquarters. In addition, the company has moved to a simpler organizational structure based on geography, with three regional chiefs (in Europe, the Americas, and Asia/Africa), plus two global divisions: foods and soaps.[13] Anthony Cescau, the new CEO, said, "We have recognized the need for greater clarity of leadership and we are moving to a simpler leadership structure that will provide a sharper operational focus."[14] In short, because everyone now reports to just one boss, "we have clarified who calls the shots," said Cescau.

Review 1: Departmentalization

There are five traditional departmental structures: functional, product, customer, geographic, and matrix. Functional departmentalization is based on the different business functions or expertise used to run a business. Product departmentalization is organized according to the different products or services a company sells. Customer departmentalization focuses its divisions on the different kinds of customers a company has. Geographic departmentalization is based on the different geographic areas or markets in which the company does business. Matrix departmentalization is a hybrid form that combines two or more forms of departmentalization, the most common being the product and functional forms. There is no "best" departmental structure. Each structure has advantages and disadvantages.

2 ORGANIZATIONAL AUTHORITY

authority
The right to give commands, take action, and make decisions to achieve organizational objectives.

The second part of traditional organizational structures is authority. **Authority** is the right to give commands, take action, and make decisions to achieve organizational objectives.[15]

Traditionally, organizational authority has been characterized by the following dimensions: **2.1 chain of command, 2.2 line versus staff authority, 2.3 delegation of authority,** and **2.4 degree of centralization.**

2.1 Chain of Command

Turn back a few pages to Microsoft's organizational chart in Exhibit 9.1. If you place your finger on any position in the chart, say, Central Business Services (under Microsoft Business Solutions), you can trace a line upward to the company's CEO, Steve Ballmer. This line, which vertically connects every job in the company to higher levels of management, represents the chain of command. The **chain of command** is the vertical line of authority that clarifies who reports to whom throughout the organization. People higher in the chain of command have the right, *if they so choose*, to give commands, take action, and make decisions concerning activities occurring anywhere below them in the chain. In the following discussion about delegation and decentralization, you will learn that managers don't always choose to exercise their authority directly.[16]

JOHN FROSCHAUER/ BLOOMBERG NEWS/ LANDOV

When Steve Ballmer took over the CEO position at Microsoft from Bill Gates, the new chain of command was surprisingly unclear. Once they became comfortable with the change, however, the new structure proved to be a success.

One of the key assumptions underlying the chain of command is **unity of command**, which means that workers should report to just one boss.[17] In practical terms, this means that only one person can be in charge at a time. Matrix organizations, in which employees have two bosses, or—as in the Unilever example you just read about—two headquarters, automatically violate this principle. This is one of the primary reasons that matrix organizations are difficult to manage. The purpose of unity of command is to prevent the confusion that might arise when an employee receives conflicting commands from two different bosses. For example, when Bill Gates became chairman of Microsoft (after being CEO) and Steve Ballmer became CEO, there was confusion about the chain of command at Microsoft. In one meeting, Gates approved a budget increase for a project. Ballmer then denied the increase, shouting at Gates, "You put me in charge of the company. Let me run it."[18] With their different styles and approaches, with Gates still widely involved in Microsoft's daily decisions, and with managers and employees used to deferring to Gates over the 20 years that he was CEO, it's not surprising that the chain of command was unclear and that Gates and Ballmer had trouble adjusting to their new roles.

chain of command
The vertical line of authority that clarifies who reports to whom throughout the organization.

unity of command
A management principle that workers should report to just one boss.

2.2 Line versus Staff Authority

A second dimension of authority is the distinction between line and staff authority. **Line authority** is the right to command immediate subordinates in the chain of command. For example, in the Microsoft organizational chart in Exhibit 9.1, CEO Steve Ballmer has line authority over the manager of the Homes and Entertainment Group. Ballmer can issue orders to that group vice president and expect them to be carried out. In turn, the Homes and Entertainment Group vice president can issue orders to the managers in charge of the Xbox, Consumer Hardware and Software, Online Games, and TV Platform divisions and expect them to be carried out.

Staff authority is the right to advise, but not command, others who are not subordinates in the chain of command. For example, at Microsoft, a manager in human resources might advise the vice president of MSN on a hiring decision but cannot order him or her to hire a certain applicant.

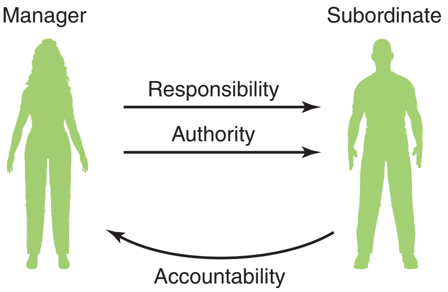
The terms *line* and *staff* are also used to describe different functions within the organization. A **line function** is an activity that contributes directly to creating or selling the company's products. So, for example, activities that take place within the manufacturing and marketing departments would be considered line functions. A **staff function** does not contribute directly to creating or selling the company's products, but instead supports line activities. Accounting, human

line authority
The right to command immediate subordinates in the chain of command.

staff authority
The right to advise, but not command, others who are not subordinates in the chain of command.

line function
An activity that contributes directly to creating or selling the company's products.

staff function
An activity that does not contribute directly to creating or selling the company's products, but instead supports line activities.



Source: C. D. Pringle, D. F. Jennings, & J. G. Longenecker, *Managing Organizations: Functions and Behaviors* © 1990. Adapted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Exhibit 9.8
Delegation: Responsibility, Authority, and Accountability

resources, and legal services are typical staff functions within an organization. For example, marketing managers might consult with the legal staff to make sure the wording of a particular advertisement is legal.

2.3 Delegation of Authority

delegation of authority
The assignment of direct authority and responsibility to a subordinate to complete tasks for which the manager is normally responsible.

Managers can exercise their authority directly by completing the tasks themselves, or they can choose to pass on some of their authority to subordinates. **Delegation of authority** is the assignment of direct authority and responsibility to a subordinate to complete tasks for which the manager is normally responsible.

When a manager delegates work, three transfers occur, as illustrated in Exhibit 9.8. First, the manager transfers full responsibility for the assignment to the subordinate. Many managers find giving up full responsibility somewhat difficult. For example, a second reason for the tough transition from Bill Gates to Steve Ballmer as CEO at Microsoft was Gates's difficulty in completely delegating the CEO job to Ballmer. When it was announced the Ballmer would become CEO, one member of Microsoft's board said, "Bill is always going to have a hard time letting go. Steve is going to [have to] rip it out of his hands."[19]

Another problem is that managers often fear that the task won't be done as well as if they did it themselves. However, one CEO says, "If you can delegate a task to somebody who can do it 75 percent to 80 percent as well as you can today, you delegate it immediately." Why? The reason is that many tasks don't need to be done perfectly; they just need to be done. And delegating tasks that someone else can do frees managers to assume other important responsibilities.

Sometimes managers delegate "full responsibility" only to later interfere with how the employee is performing the task. "Why are you doing it that way? That's not the way I do it." In short, delegating full responsibility means that the employee—not the manager—is now completely responsible for task completion.

Second, delegation transfers to the subordinate full authority over the budget, resources, and personnel needed to do the job. To do the job effectively, subordinates must have the same tools and information at their disposal that managers had when they were responsible for the same task. In other words, for delegation to work, delegated authority must be commensurate with delegated responsibility. Now that Gates and Ballmer have adjusted to their respective roles as chairman and CEO, Ballmer has full responsibility as CEO. Simply put, says Gates, "Steve's the No. 1 guy, and I'm the No. 2 guy. . . . I have a strong voice, a strong recommendation, but Steve has to decide."[20] Moreover, though the adjustment took time, by delegating his CEO responsibilities to Ballmer, Gates has freed himself to do what he does and loves best—influence technology decisions. Gates now spends 65 percent of his time working with development teams on technology issues. He has thrived since the change. Group vice president Jeff Raikes says, "You can just see the sparkle in his eye." Says Gates, "It's a nice time."[21]

The third transfer that occurs with delegation is the transfer of accountability. The subordinate now has the authority and responsibility to do the job and is then accountable for getting the job done.

Exhibit 9.9
How to Be a More Effective Delegator

1. Trust your staff to do a good job. Recognize that others have the talent and ability to complete projects.
2. Avoid seeking perfection. Establish a standard of quality and provide a time frame for reaching it.
3. Give effective job instructions. Make sure employees have enough information to complete the job successfully.
4. Know your true interests. Delegation is difficult for some people who actually prefer doing the work themselves rather than managing it.
5. Follow up on progress. Build in checkpoints to help identify potential problems.
6. Praise the efforts of your staff.
7. Don't wait to the last minute to delegate. Avoid crisis management by routinely delegating work.
8. Ask questions, expect answers, and assist employees to help them complete the work assignments as expected.
9. Provide the resources you would expect if you were doing an assignment yourself.
10. Delegate to the lowest possible level to make the best possible use of organizational resources, energy, and knowledge.

Source: S. B. Wilson, "Are You an Effective Delegator?" *Female Executive*, 1 November 1994, 19.

In other words, managers give subordinates their managerial authority and responsibility in exchange for results. *Forbes* magazine columnist John Rutledge calls delegation "MBB," Managing by Belly Button. He says, "The belly button is the person whose belly you point your finger at when you want to know how the work is proceeding, i.e., the person who will actually be accountable for each step. . . . The belly button is not a scapegoat—a person to blame later when things go wrong. He or she is the person who makes sure that things go right."[22] Exhibit 9.9 gives some tips on how to be an effective delegator.

2.4 Degree of Centralization

If you've ever called a company's 1-800 number with a complaint or a special request and been told by the customer service representative, "I'll have to ask my manager," or "I'm not authorized to do that," you already know that centralization of authority exists in that company. **Centralization of authority** is the location of most authority at the upper levels of the organization. In a centralized organization, managers make most decisions, even the relatively small ones. That's why the customer service representative you called couldn't make a decision without first asking the manager.

centralization of authority
The location of most authority at the upper levels of the organization.

If you are lucky, however, you may have talked to a customer service representative at another company who said, "I can take care of that for you right now." In other words, the person was able to handle your problem without any input from or consultation with company management. **Decentralization** is the location of a significant amount of authority in the lower levels of the organization. An organization is decentralized if it has a high degree of delegation at all levels. In a decentralized organization, workers closest to problems are authorized to make the decisions necessary to solve the problems on their own.

decentralization
The location of a significant amount of authority in the lower levels of the organization.

Decentralization has a number of advantages. It develops employee capabilities throughout the company and leads to faster decision making and more satisfied customers and employees. Furthermore, a study of 1,000 large companies found that companies with a high degree of decentralization outperformed those with a low degree of decentralization in terms of return on assets (6.9 percent versus 4.7 percent), return on investment (14.6 percent versus 9.0 percent), return on equity (22.8 percent versus 16.6 percent), and return on sales (10.3 percent versus 6.3 percent). Ironically, however, the same study found that few large companies are actually decentralized. Specifically, only 31 percent of employees in these 1,000 companies were responsible for recommending improvements to management. Overall, just 10 percent of employees received the training and information needed to support a truly decentralized approach to management.[23]

With results like these, the key question is no longer whether companies should decentralize, but where they should decentralize. One rule of thumb is to stay centralized where standardization is important and to decentralize where standardization is unimportant. **Standardization** is solving problems by consistently applying the same rules, procedures, and processes. Children's Orchard is a franchise chain of stores that sells children's clothing, toys, accessories, and furniture. Under the company's original management, Children's Orchard franchisees could buy whatever they wanted, market it as they saw fit, and set their own prices. The result was that Children's Orchard stores had different merchandise, different marketing promotions, and different management practices. When Walter Hamilton bought the company, he decided that Children's Orchard could not become a powerful brand name unless there was some standardization from store to store. Consequently, he standardized the purchasing process, requiring the franchisees who owned each store to buy quality merchandise from a list of approved vendors. He also standardized advertising and promotions, producing clip art, predesigned ads, and other promotions materials for franchisees to use.[24] As a result of the increased standardization, Children's Orchard now has consistent promotions and merchandise from store to store.

standardization
Solving problems by consistently applying the same rules, procedures, and processes.

Review 2: Organizational Authority
Organizational authority is determined by the chain of command, line versus staff authority, delegation, and the degree of centralization in a company. The chain of command vertically connects every job in the company to higher levels of management and makes clear who reports to whom. Managers have line authority to command employees below them in the chain of command, but have only staff or advisory authority over employees not below them in the chain of command. Managers delegate authority by transferring to subordinates the authority and responsibility needed to do a task; in exchange, subordinates become accountable for task completion. In centralized companies, most authority to make decisions lies with managers in the upper levels of the company. In decentralized companies, much of the authority is delegated to the workers closest to problems, who can then make the decisions necessary for solving the problems themselves. Centralization works best for tasks that require standardized decision making. When standardization isn't important, decentralization can lead to faster decisions, greater employee and customer satisfaction, and significantly better financial performance.

3 JOB DESIGN

Imagine that McDonald's decided to pay $50,000 a year to its drive-through window cashiers. That's $50,000 for saying, "Welcome to McDonald's. May I have your order please?" Would you take the job? Sure you would. Work a couple of years. Make a hundred grand. Why not? Let's assume, however, that to get this outrageous salary, you have to be a full-time McDonald's drive-through window cashier for the next 10 years. Would you still take the job? Just imagine, 40 to 60 times an hour, you repeat the same basic process:

1. "Welcome to McDonald's. May I have your order please?"
2. Listen to the order. Repeat it for accuracy. State the total cost. "Please drive to the second window."
3. Take the money. Make change.
4. Give customers drinks, straws, and napkins.
5. Give customers food.
6. "Thank you for coming to McDonald's."

Could you stand to do the same simple tasks an average of 50 times per hour, 400 times per day, 2,000 times per week, or 8,000 times per month? Few can. Fast-food workers rarely stay on the job more than six months. Indeed, McDonald's and other fast-food restaurants have well over 100 percent employee turnover each year.[25]

job design
The number, kind, and variety of tasks that individual workers perform in doing their jobs.

In this next section, you will learn about **job design**—the number, kind, and variety of tasks that individual workers perform in doing their jobs. You will learn **3.1 why companies continue to use specialized jobs like the McDonald's drive-through job** and **3.2 how job rotation, job enlargement, job enrichment,** and **3.3 the job characteristics model are being used to overcome the problems associated with job specialization.**

3.1 Job Specialization

job specialization
A job composed of a small part of a larger task or process.

Job specialization occurs when a job is composed of a small part of a larger task or process. Specialized jobs are characterized by simple, easy-to-learn steps, low variety, and high repetition, like the McDonald's drive-through window job described above. One of the clear disadvantages of specialized jobs is that, being so easy to learn, they quickly become boring. This, in turn, can lead to low job satisfaction and high absenteeism and employee turnover, all of which are very costly to organizations.

Why, then, do companies continue to create and use specialized jobs? The primary reason is that specialized jobs are very economical. Once a job has been specialized, it takes little time to learn and master. Consequently, when experienced workers quit or are absent, the company can replace them with new employees and lose little productivity. For example, next time you're at McDonald's, notice the pictures of the food on the cash registers. These pictures make it easy for McDonald's trainees to quickly learn to take orders. Likewise, to simplify and speed operations, the drink dispensers behind the counter are set to automatically fill drink cups. Put a medium cup below the dispenser. Punch the medium drink button. The soft drink machine then fills the cup to within a half-inch of the top, while that same worker goes to get your fries. At McDonald's, every task has been simplified in this way. Because the work is designed to be simple, wages can remain low since it isn't necessary to pay high salaries to attract highly experienced, educated, or trained workers.

BARRY SWEET/ EPA/ LANDOV

This two-window drive-thru in Monroe, Washington, is typical of McDonald's (and other fast-food restaurants) around the country. But even though this way of organizing the work is extremely efficient, it can be less than stimulating for employees.

3.2 Job Rotation, Enlargement, and Enrichment

Because of the efficiency of specialized jobs, companies are often reluctant to eliminate them. Consequently, job redesign efforts have focused on modifying jobs to keep the benefits of specialized jobs, while reducing their obvious costs and disadvantages. Three methods—job rotation, job enlargement, and job enrichment—have been used to try to improve specialized jobs.[26]

In factory work or even some office jobs, many workers perform the same task all day long. For example, if you attach side mirrors in an auto factory, you probably complete this task 45 to 60 times an hour. If you work as the cashier at a grocery store, you check out a different customer every two to three minutes. And if you work as an office receptionist, you may answer and direct phone calls up to 200 times an hour.

Job rotation attempts to overcome the disadvantages of job specialization by periodically moving workers from one specialized job to another to give them more variety and the opportunity to use different skills. For example, the office receptionist who does nothing but answer phones could be systematically rotated to a different job, such as typing, filing, or data entry, every day or two. Likewise, the "mirror attacher" in the automobile plant might attach mirrors in the first half of the day's work shift and then install bumpers during the second half. Because employees simply switch from one specialized job to another, job rotation allows companies to retain the economic benefits of specialized work. At the same time, the greater variety of tasks makes the work less boring and more satisfying for workers.

job rotation
Periodically moving workers from one specialized job to another to give them more variety and the opportunity to use different skills.

Another way to counter the disadvantages of specialization is to enlarge the job. **Job enlargement** increases the number of different tasks that a worker performs within one particular job. So, instead of being assigned just one task, workers with enlarged jobs are given several tasks to perform. For example, an enlarged "mirror attacher" job might include attaching the mirror, checking to see that the mirror's power adjustment controls work, and then cleaning the mirror's surface. Though job enlargement increases variety, many workers report feeling more stress when their jobs are enlarged. Consequently, many workers view enlarged jobs as simply "more work," especially if they are not given additional time to complete the additional tasks.

job enlargement
Increasing the number of different tasks that a worker performs within one particular job.

job enrichment
Increasing the number of tasks in a particular job and giving workers the authority and control to make meaningful decisions about their work.

Job enrichment attempts to overcome the deficiencies in specialized work by increasing the number of tasks *and* by giving workers the authority and control to make meaningful decisions about their work.[27] At AES, an independent power company that sells electricity to public utilities and steam (for power) to industrial organizations, workers have been given an extraordinary level of authority and control. For example, with his hands still blackened after unloading coal from a barge, employee Jeff Hatch calls a broker to determine which Treasury bills the company should buy to maximize the short-term return on its available cash. Hatch asks his broker, "What kind of rate can you give me for $10 million at 30 days?" When the broker tells him, "6.09 percent," he responds, "But I just got a 6.13 percent quote from Chase."[28] Indeed, at AES, ordinary plant technicians are given budgets worth several million dollars and are trusted to purchase everything from mops to gas turbines. In most companies, such tasks would only be entrusted to managers, but CEO Dennis Bakke says, "The more you increase individual responsibility, the better the chances for incremental improvements in operations." Paul Burdick, an engineer entrusted with the ability to purchase billions of dollars of coal agrees, saying, "You're given a lot of leeway and a lot of rope. You can use it to climb or you can hang yourself."[29]

3.3 Job Characteristics Model

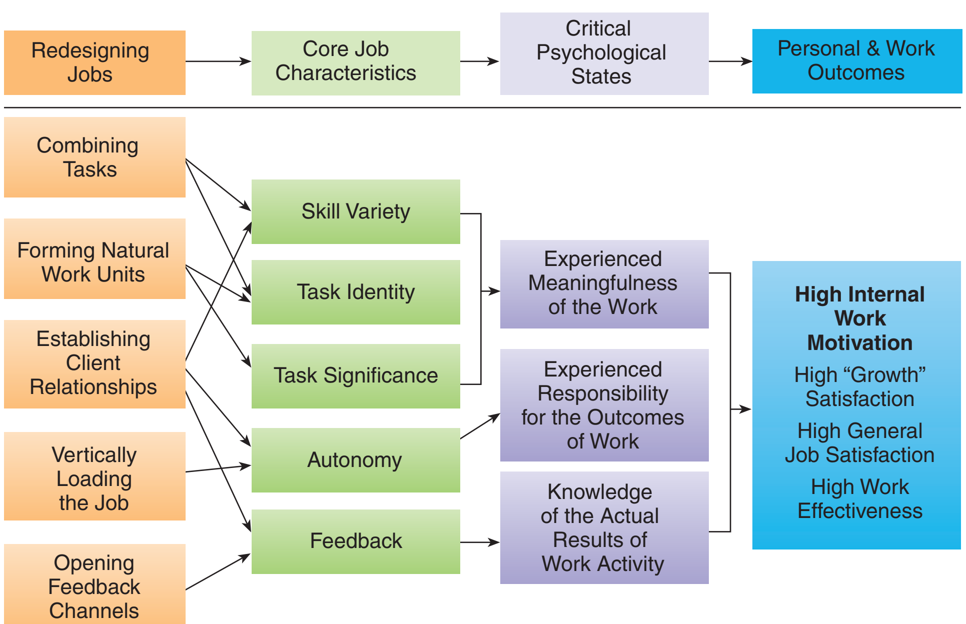
job characteristics model (JCM) An approach to job redesign that seeks to formulate jobs in ways that motivate workers and lead to positive work outcomes.

internal motivation Motivation that comes from the job itself rather than from outside rewards.

In contrast to job rotation, job enlargement, and job enrichment, which focus on providing variety in job tasks, the **job characteristics model (JCM)** is an approach to job redesign that seeks to formulate jobs in ways that motivate workers and lead to positive work outcomes.[30] As shown in Exhibit 9.10, the primary goal of the model is to create jobs that result in positive personal and work outcomes such as internal work motivation, satisfaction with one's job, and work effectiveness. Of these, the central concern of the JCM is internal motivation. **Internal motivation** is motivation that comes from the job itself rather than from outside rewards, such as a raise or praise from the boss. If workers feel that performing the job well is itself rewarding, then the job has internal motivation. Statements such as "I get a nice sense of accomplishment" or "I feel good about myself and what I'm producing" are examples of internal motivation.

Moving to the left in Exhibit 9.10, you can see that the JCM specifies three critical psychological states that must occur for work to be internally motivating. First, workers must *experience the work as meaningful*; that is, they must

Exhibit 9.10
Job Characteristics Model



Source: J. R. Hackman and G. R. Oldham, *Work Redesign* (Reading, MA: Addison-Wesley, 1980). Reprinted by permission of Addison-Wesley Longman.

view their job as being important. Second, they must *experience responsibility for work outcomes*—they must feel personally responsible for the work being done well. Third, workers must have *knowledge of results*; that is, they must know how well they are performing their jobs. All three critical psychological states must occur for work to be internally motivating.

For example, let's return to our grocery store cashier. Cashiers usually have knowledge of results. When you're slow, your checkout line grows long. If you make a mistake, customers point it out: "No, I think that's on sale for $2.99, not $3.99." Likewise, cashiers experience responsibility for work outcomes. At the end of the day, the register is totaled and the money is counted. Ideally, the money matches the total sales in the register. If the money in the till is less than what's recorded in the register, most stores make the cashier pay the difference. Consequently, most cashiers are very careful to avoid being caught "short" at the end of the day. Nonetheless, despite knowing the results and experiencing responsibility for work outcomes, most grocery store cashiers (at least where I shop) aren't internally motivated because they don't experience the work as meaningful. With scanners, it takes little skill to learn or do the job. Anyone can do it. In addition, cashiers have few decisions to make, and the job is highly repetitive.

Of course, this raises the question: What kinds of jobs produce the three critical psychological states? Again, moving to the left in Exhibit 9.10, the JCM specifies that the three critical psychological states arise from jobs that are strong on five core job characteristics: skill variety, task identity, task significance, autonomy, and feedback. **Skill variety** is the number of different activities performed in a job. **Task identity** is the degree to which a job, from beginning to end, requires completion of a whole and identifiable piece of work. **Task significance** is the degree to which a job is perceived to have a substantial impact on others inside or outside the organization. **Autonomy** is the degree to which a job gives workers the discretion, freedom, and independence to decide how and when to accomplish the work. Finally, **feedback** is the amount of information the job provides to workers about their work performance.

skill variety
The number of different activities performed in a job.

task identity
The degree to which a job, from beginning to end, requires the completion of a whole and identifiable piece of work.

task significance
The degree to which a job is perceived to have a substantial impact on others inside or outside the organization.

autonomy
The degree to which a job gives workers the discretion, freedom, and independence to decide how and when to accomplish the job.

feedback
The amount of information the job provides to workers about their work performance.

To illustrate how the core job characteristics work together, let's use them to more thoroughly assess why the McDonald's drive-through window job is not particularly satisfying or motivating. To start, skill variety is low. Except for the size of an order or special requests (no onions), the process is the same for each customer. At best, task identity is moderate. Although you take the order, handle the money, and deliver the food, others are responsible for a larger part of the process—preparing the food. Task identity will be even lower if the McDonald's has two drive-through windows because each drive-through window worker will have an even more specialized task. The first is limited to taking the order and making change, while the second just delivers the food. Task significance, the impact you have on others, is probably low. Autonomy is also very low. McDonald's has strict rules about dress, cleanliness, and procedures. But the job does provide immediate feedback, such as positive and negative customer comments, car horns honking, the amount of time it takes to process orders, and the number of cars in the drive-through. With the exception of feedback, the low levels of the core job characteristics show why the drive-through window job is not internally motivating for many workers.

What can managers do when jobs aren't internally motivating? The far left column of Exhibit 9.10 lists five job redesign techniques that managers can use to strengthen a job's core characteristics. *Combining tasks* increases skill variety and task identity by joining separate, specialized tasks into larger work modules. For example, some trucking firms are now requiring truck drivers to load their rigs as well as drive them. The hope is that involving drivers in loading will ensure that trucks are properly loaded, thus reducing damage claims.

Work can be formed into *natural work units* by arranging tasks according to logical or meaningful groups. Although many trucking companies randomly assign drivers to trucks, some have begun assigning drivers to particular geographic locations (e.g., the Northeast or Southwest) or to truckloads that require special driving skill when being transported (e.g., oversized loads, chemicals, etc.). Forming natural work units increases task identity and task significance.

Establishing client relationships increases skill variety, autonomy, and feedback by giving employees direct contact with clients and customers. In some companies, truck drivers are expected to establish business relationships with their regular customers. When something goes wrong with a shipment, customers are told to call drivers directly.

Vertical loading means pushing some managerial authority down to workers. For truck drivers, this means that they have the same authority as managers to resolve customer problems. In some companies, if a late shipment causes problems for a customer, the driver has the ability to fully refund the cost of that shipment (without first obtaining management's approval).

The last job redesign technique offered by the model, *opening feedback channels*, means finding additional ways to give employees direct, frequent feedback about their job performance. For example, with advances in electronics, many truck drivers get instantaneous data as to whether they're on schedule and driving their rigs in a fuel-efficient manner. Likewise, the increased contact with customers also means that many drivers now receive monthly data on customer satisfaction. For additional information on the JCM, see this chapter's "What Really Works" feature.

Review 3: Job Design

Companies use specialized jobs because they are economical and easy to learn and don't require highly paid workers. However, specialized jobs aren't motivating or particularly satisfying for employees. Companies have used job rotation, job enlargement, job enrichment, and the job characteristics model to make specialized jobs more interesting and motivating. With job rotation, workers move from one specialized job to another. Job enlargement simply increases the number of different tasks within a particular job. Job enrichment increases the number of tasks in a job and gives workers authority and control over their work. The goal of the job characteristics model is to make jobs intrinsically motivating. For this to happen, jobs must be strong on five core job characteristics (skill variety, task identity, task significance, autonomy, and feedback), and workers must experience three critical psychological states (knowledge of results, responsibility for work outcomes, and meaningful work). If jobs aren't internally motivating, they can be redesigned by combining tasks, forming natural work units, establishing client relationships, vertical loading, and opening feedback channels.

Designing Organizational Processes

mechanistic organization
An organization characterized by specialized jobs and responsibilities, precisely defined, unchanging roles, and a rigid chain of command based on centralized authority and vertical communication.

organic organization
An organization characterized by broadly defined jobs and responsibility, loosely defined, frequently changing roles, and decentralized authority and horizontal communication based on task knowledge.

More than 40 years ago, Tom Burns and G. M. Stalker described how two kinds of organizational designs, mechanistic and organic, are appropriate for different kinds of organizational environments.[31] **Mechanistic organizations** are characterized by specialized jobs and responsibilities, precisely defined, unchanging roles, and a rigid chain of command based on centralized authority and vertical communication. This type of organization works best in stable, unchanging business environments. By contrast, **organic organizations** are characterized by broadly defined jobs and responsibility, loosely defined, frequently changing roles, and decentralized authority and horizontal communication based on task knowledge. This type of organization works best in dynamic, changing business environments.

WHAT REALLY WORKS

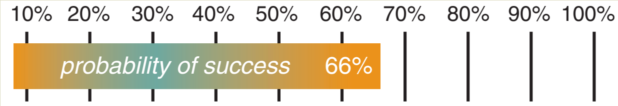
The Job Characteristics Model: Making Jobs More Interesting and Motivating

Think of the worst job you ever had. Was it factory work where you repeated the same task every few minutes? Was it an office job requiring a lot of meaningless paperwork? Or was it a job so specialized that it took no effort or thinking whatsoever to do?

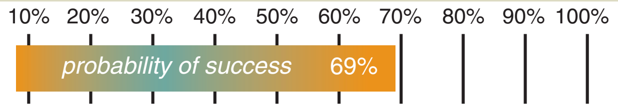
The job characteristics model reviewed in this chapter suggests that workers will be more motivated or satisfied with their work if their jobs have greater task identity, task significance, skill variety, autonomy, and feedback. Eighty-four studies, with a combined total of 22,472 participants, found that, on average, these core job characteristics make jobs more satisfying for most workers. In addition, jobs rich with the five core job characteristics are especially satisfying for workers who possess an individual characteristic called *growth need strength*. Read on to see how well the JCM really increases job satisfaction and reduces workplace absenteeism.

JOB SATISFACTION

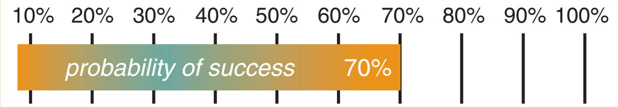
There is a 66 percent chance that workers will be more satisfied with their work when their jobs have task identity, the chance to complete an entire job from beginning to end, than when they don't.



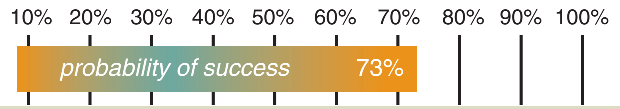
On average, there is a 69 percent chance that workers will be more satisfied with their work when their jobs have task significance, meaning a substantial impact on others, than when they don't.



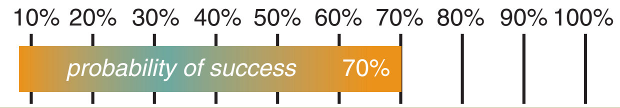
On average, there is a 70 percent chance that workers will be more satisfied with their work when their jobs have skill variety, meaning a variety of different activities, skills, and talents, than when they don't.



On average, there is a 73 percent chance that workers will be more satisfied with their work when their jobs have autonomy, meaning the discretion to decide how and when to accomplish the work, than when they don't.

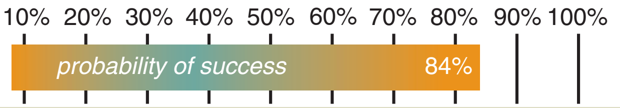


On average, there is a 70 percent chance that workers will be more satisfied with their work when their jobs provide feedback, meaning information about their work performance, than when they don't.

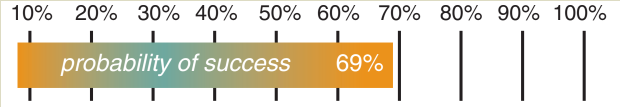


The statistics presented above indicate that, on average, the JCM has, at worst, a 66 percent chance of improving workers' job satisfaction. In all, this is impressive evidence that the model works. In general, you can expect these results when redesigning jobs based on the model.

We can be more accurate about the effects of the JCM, however, if we split workers into two groups: those with high growth need strength and those with low growth need strength. *Growth need strength* is the need or desire to achieve personal growth and development through one's job. Workers high in growth need strength respond well to jobs designed according to the JCM because they enjoy work that challenges them and allows them to learn new skills and knowledge. In fact, there is an 84 percent chance that workers with high growth need strength will be more satisfied with their work when their jobs are redesigned according to the JCM.

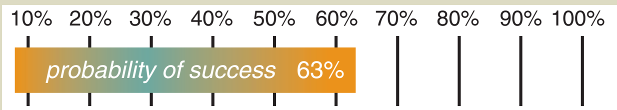


By comparison, because they aren't as interested in being challenged or learning new things at work, there is only a 69 percent chance that workers low in growth need strength will be satisfied with jobs that have been redesigned according to the principles of the JCM. This is still a favorable percentage, but it is weaker than the 84 percent chance of job satisfaction that occurs for workers high in growth need strength.

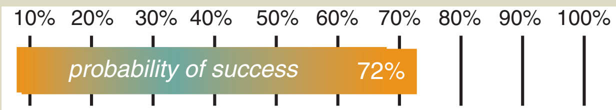


WORKPLACE ABSENTEEISM
Although not shown in the job characteristics model displayed in Exhibit 9.10, workplace absenteeism is an important personal or work outcome affected by a job's core job characteristics. In general, the "richer" your job is with task identity, task significance, skill variety, autonomy, and feedback, the more likely you are to show up for work every day.

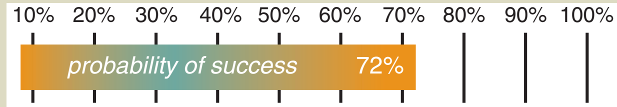
Workers are 63 percent more likely to attend work when their jobs have task identity than when they don't.



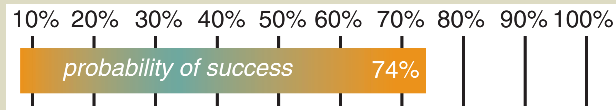
Workers are 68 percent more likely to attend work when their jobs have task significance than when they don't.



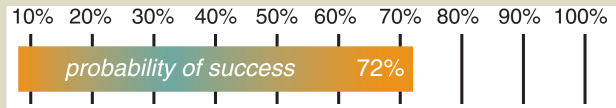
Workers are 72 percent more likely to attend work when their jobs have skill variety than when they don't.



Workers are 74 percent more likely to attend work when their jobs have autonomy than when they don't.



Workers are 72 percent more likely to attend work when their jobs provide feedback than when they don't.[32]



The organizational design techniques described in the first half of this chapter—departmentalization, authority, and job design—are better suited for mechanistic organizations and the stable business environments that were more prevalent before 1980. In contrast, the organizational design techniques discussed here in the second part of the chapter are more appropriate for organic organizations and the increasingly dynamic environments in which today's businesses compete.

The key difference between these approaches is that whereas mechanistic organizational designs focus on organizational structure, organic organizational designs are concerned with organizational process, the collection of activities that transform inputs into outputs valued by customers. After reading the next two sections, you should be able to

4 explain the methods that companies are using to redesign internal organizational processes (i.e., intraorganizational processes).

5 describe the methods that companies are using to redesign external organizational processes (i.e., interorganizational processes).

4 INTRAORGANIZATIONAL PROCESSES

intraorganizational process
The collection of activities that take place within an organization to transform inputs into outputs that customers value.

An **intraorganizational process** is the collection of activities that take place within an organization to transform inputs into outputs that customers value. The steps involved in an automobile insurance claim are a good example of an intraorganizational process:

1. Document the loss (i.e., the accident).
2. Assign an appraiser to determine the dollar amount of damage.
3. Make an appointment to inspect the vehicle.

4. Inspect the vehicle.
5. Write an appraisal and get the repair shop to agree to the damage estimate.
6. Pay for the repair work.
7. Return the repaired car to the customer.

Let's take a look at how companies are using **4.1 reengineering, 4.2 empowerment,** and **4.3 behavioral informality to redesign internal organizational processes like these.**

4.1 Reengineering

In their best-selling book *Reengineering the Corporation*, Michael Hammer and James Champy defined **reengineering** as "the *fundamental* rethinking and *radical* redesign of business *processes* to achieve *dramatic* improvements in critical, contemporary measures of performance, such as cost, quality, service and speed."[33] Hammer and Champy further explained the four key words shown in italics in this definition. The first key word is *fundamental*. When reengineering organizational designs, managers must ask themselves, "Why do we do what we do?" and "Why do we do it the way we do?" The usual answer is, "Because that's the way we've always done it." The second key word is *radical*. Reengineering is about significant change, about starting over by throwing out the old ways of getting work done. The third key word is *processes*. Hammer and Champy noted that "most business people are not process oriented; they are focused on tasks, on jobs, on people, on structures, but not on processes." The fourth key word is *dramatic*. Reengineering is about achieving "quantum" improvements in company performance.

reengineering
Fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical measures of performance, such as cost, quality, service, and speed.

An example from IBM Credit's operation illustrates how work can be reengineered.[34] IBM Credit loans businesses money to buy IBM computers. Previously, the loan process began when an IBM salesperson called to obtain credit approval for a customer's purchase. The first department involved in the process took the credit information over the phone from the salesperson and recorded it on the credit form. Then, the credit form was sent first to a separate credit checking department, then to a separate pricing department (where the interest rate was determined), and so on. In all, it took five departments six days to approve or deny the customer's loan. Of course, this delay cost IBM business. Some customers got their loans elsewhere. Others, frustrated by the wait, simply canceled their orders.

Finally, two IBM managers decided to walk a loan straight through to each of the five departments involved in the process. At each step, they asked the workers to stop what they were doing and immediately process their loan application. They were shocked by what they found. From start to finish, the entire process took just 90 minutes! It turned out that the average time of six days occurred because of delays in handing off the work from one department to another. The solution: IBM redesigned the process so that one person, not five in five separate departments, handled the entire loan approval process without any handoffs. The results were "dramatic." Reengineering the credit process reduced approval time from six days to four hours and allowed IBM Credit to increase the number of loans it handled by a factor of 100!

Reengineering changes an organization's orientation from vertical to horizontal. Instead of "taking orders" from upper management, lower- and middle-level managers and workers "take orders" from a customer who is at the beginning and end of each process. Instead of running independent functional departments, managers and workers in different departments take ownership of cross-functional processes. Instead of simplifying work so that it becomes increasingly specialized, reengineering complicates work by giving workers increased autonomy and responsibility for complete processes.

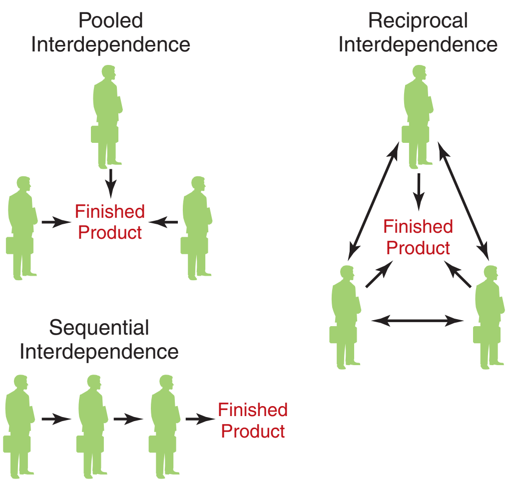


Exhibit 9.11
Reengineering and Task Interdependence

In essence, reengineering changes work by changing **task interdependence**, the extent to which collective action is required to complete an entire piece of work. As shown in Exhibit 9.11, there are three kinds of task interdependence.[35] In **pooled interdependence**, each job or department independently contributes to the whole. In **sequential interdependence**, work must be performed in succession, as one group's or job's outputs become the inputs for the next group or job. Finally, in **reciprocal interdependence**, different jobs or groups work together in a back-and-forth manner to complete the process. By reducing the handoffs between different jobs or groups, reengineering decreases sequential interdependence. Likewise, reengineering decreases pooled interdependence by redesigning work so that formerly independent jobs or departments now work together to complete processes. Finally, reengineering increases reciprocal interdependence by making groups or individuals responsible for larger, more complete processes in which several steps may be accomplished at the same time.

task interdependence
The extent to which collective action is required to complete an entire piece of work.

pooled interdependence
Work completed by having each job or department independently contribute to the whole.

sequential interdependence
Work completed in succession, with one group's or job's outputs becoming the inputs for the next group or job.

reciprocal interdependence
Work completed by people performing different jobs or groups working together in a back-and-forth manner.

As an organizational design tool, reengineering promises big rewards, but it has also come under severe criticism. The most serious complaint is that because it allows a few workers to do the work formerly done by many, reengineering is simply a corporate code word for cost cutting and worker layoffs.[36] Likewise, for that reason, detractors claim that reengineering hurts morale and performance. For example, even though ordering times were reduced from three weeks to three days, Levi Strauss ended an $850 million reengineering project because of the fear and turmoil it created in the company's work force. One low point occurred when Levi management, encouraged by its reengineering consultants, told 4,000 workers that they would have to "reapply for their jobs" as the company shifted from its traditional vertical structure to a process-based form of organizing. Thomas Kasten, Levi's vice president for reengineering and customer service, said, "We felt the pressure building up [over reengineering efforts], and we were worried about the business."[37] Today, even reengineering gurus Hammer and Champy admit that roughly 70 percent of all reengineering projects fail because of the effects on people in the workplace. Says Hammer, "I wasn't smart enough about that [the people issues]. I was reflecting my engineering background and was insufficiently appreciative of the human dimension. I've learned [now] that's critical."[38]

4.2 Empowerment

Another way of redesigning interorganizational processes is through empowerment. **Empowering workers** means permanently passing decision-making authority and responsibility from managers to workers. For workers to be fully empowered, however, companies must give them the information and resources they need to make and carry out good decisions, and then reward them for taking individual initiative.[39] Unfortunately, this doesn't happen often enough. As Michael Schrage, author and MIT researcher, wrote:

empowering workers
Permanently passing decision-making authority and responsibility from managers to workers by giving them the information and resources they need to make and carry out good decisions.

A warehouse employee can see on the intranet that a shipment is late but has no authority to accelerate its delivery. A project manager knows—and can mathematically demonstrate—that a seemingly minor spec change will bust both her budget and her schedule. The spec must be changed anyway. An airline reservations agent tells the Executive Platinum Premier frequent flier that first class appears wide open for an upgrade. However, the airline's yield management software won't permit any upgrades until just four hours before the flight, frequent fliers (and reservations) be damned. In all these cases, the employee has access to valuable information. Each one possesses the "knowledge" to do the job better. But the knowledge and information are irrelevant *and useless. Knowledge isn't power; the ability to act on knowledge is power.*[40]

When workers are given the proper information and resources and are allowed to make good decisions, they experience strong feelings of empowerment. **Empowerment** is a feeling of intrinsic motivation, in which workers perceive their work to have meaning and perceive themselves to be competent, having an impact, and capable of self-determination.[41] Work has meaning when it is consistent with personal standards and beliefs. Workers feel competent when they believe they can perform an activity with skill. The belief that they are having an impact comes from a feeling that they can affect work outcomes. A feeling of self-determination arises from workers' belief that they have the autonomy to choose how best to do their work.

empowerment
Feelings of intrinsic motivation, in which workers perceive their work to have impact and meaning and perceive themselves to be competent and capable of self-determination.

Empowerment can lead to changes in organizational processes because meaning, competence, impact, and self-determination produce empowered employees who take active, rather than passive, roles in their work. At CSX, a large railroad company, accidents, such as knocking railroad cars off the tracks or into each other, were all too common. When they occurred, management would typically charge employees with wrongdoing and often dismiss them from their jobs. In an abrupt turn, CSX has now empowered employees to be completely responsible for safety. Employees, rather than managers, elect other employees to safety committees that are responsible for reviewing accidents. And, instead of charging and dismissing employees who commit accidents, those employee-run committees now sit down with the employees who were involved in accidents to "casually discuss" what happened. In most cases, the employees return to their jobs unpunished. Fearing the company had gone soft, veteran managers expected accident rates to rise. Instead, accident rates decreased by 20 percent, and suspensions and dismissals fell from 70 to 24 in the first year after CSX empowered employees to improve company safety.[42]

4.3 Behavioral Informality

How would you describe the atmosphere in the office where you last worked? Was it a formal, by-the-book, follow-the-rules, address-each-other-by-last-names atmosphere? Or was it more informal, with an emphasis on results rather than rules, casual business dress rather than suits, and first names rather than last names and titles? Or was it somewhere in between?

Behavioral informality (or formality) is a third influence on intraorganizational processes. **Behavioral informality** refers to workplace atmospheres characterized by spontaneity, casualness, and interpersonal familiarity. By contrast, **behavioral formality** refers to workplace atmospheres characterized by routine and regimen, specific rules about how to behave, and impersonal detachment. As Exhibit 9.12 shows, behavioral formality and informality are characterized by four factors: language usage, conversational turn taking and topic selection, emotional and proxemic gestures, and physical and contextual cues. Let's examine each in more detail.[43]

behavioral informality
A workplace atmosphere characterized by spontaneity, casualness, and interpersonal familiarity.

behavioral formality
A workplace atmosphere characterized by routine and regimen, specific rules about how to behave, and impersonal detachment.

Compared to formal work atmospheres, the language in informal workplaces is often slurred ("Whatcha doin'?"), elliptical ("Coffee?" versus "Would you like some coffee?"), and filled with slang terms and vivid descriptions. People use first names and perhaps nicknames to address each other, rather than Mr., Ms., Dr., or formal titles. When it comes to conversations in informal workplaces, people jump right in when they have something to say (i.e., unregulated turn taking); conversations shift from topic to topic, many of which are unrelated to business; and joking and laughter are common. From joy to disappointment, people show much more emotion in informal workplaces. Relaxed behavior, such as putting your feet on your desk or congregating in hallways for

	FORMAL	INFORMAL
LANGUAGE USAGE	Fully articulated speech ("What are you doing?") Grammatically complete phrasing ("Would you like some coffee?") Use of formal word choices ("Would you care to dine?") Use of honorifics ("Ms.," "Sir," "Dr.") Elimination of "I" and "you" ("It is requested that. . . ")	Phonological slurring ("Whatcha doin'?") Use of elliptical expressions ("Coffee?") Use of colloquial and slang expressions ("Wanna grab a bite to eat?") Use of the vivid present ("So I come down the stairs, and she says . . . ") First name, in-group names ("Mac," "Bud")
CONVERSATIONAL TURN TAKING AND TOPIC SELECTION	Turn taking well regulated Few interruptions or overlaps Few changes of topic Seriousness of topic	Turn taking relatively unregulated Many interruptions or overlaps Many shifts of topic possible Joking or conversational levity possible
EMOTIONAL AND PROXEMIC GESTURES	Sober facial demeanor Much interpersonal distance No touching, postural attention	Greater latitude of emotional expression Small interpersonal distance Touching, postural relaxation allowed
PHYSICAL AND CONTEXTUAL CUES	Formal clothing, shoes, etc. Central focus of attention Symmetric arrangement of chairs/furniture Artifacts related to official status Hushed atmosphere, little background noise	Informal clothing, shoes, etc. Decentralized, multiple centers of attention possible Asymmetric arrangement of chairs/furniture Informal trappings: flowers, art, food, soft furniture Background noise acceptable

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Exhibit 9.12
Differences between Formal and Informal Workplaces.

impromptu discussions, is more common, too. In terms of physical and contextual cues, informal workplaces de-emphasize differences in hierarchical status or rank to encourage more frequent interaction between organizational members. Consequently, to make their organizations feel less formal, many companies have eliminated such "management perks," as executive dining rooms, reserved parking spaces, and large corner offices separated from most workers by virtue of their location on a higher floor of the company building (the higher the floor, the greater one's status).

Casual dress policies and open office systems are two of the most popular methods for increasing behavioral informality. In fact, a survey conducted by the Society for Human Resource Management indicates that casual dress policies (no suits, ties, jackets, dresses, or formal clothing required) are extremely popular.[44] Today, 86 percent of companies have some form of casual dress code compared to 63 percent 7 years ago and 24 percent 12 years ago.[45] Similarly, 42 percent of all companies permit casual dress at least one day a week compared to 17 percent five years ago. Moreover, 33 percent of companies permit casual dress every day of the week, up from 20 percent seven years ago.

Although sales of formal business wear, such as men's suits, increased last year for the first time in eight years and some companies, such as retailer Target Corporation, have instituted formal dress codes that ban "business casual," "no study shows that productivity goes up with better dress," says John Challenger, chief executive of Challenger, Gray & Christmas, Inc., a Chicago-based outplacement company.[46] Indeed, compared to formal dress, casual dress appears to improve employee attitudes. For example, Colin Stanbridge, the chief executive of London's Chamber of Commerce, said, "People tend to work at their best when they feel most comfortable. And today I think the vast majority of people feel at their most comfortable when wearing casual dress."[47] In fact, 85 percent of human resources directors believe that casual dress can improve office morale, and 79 percent say that employees are very satisfied with casual dress codes.[48] Moreover, nearly two-thirds of the human resources directors believe that casual dress policies are an important tool for attracting qualified employees in tight labor markets. Michael Losey, president of the Society for Human Resource Management, concludes that "for the majority of corporations and industries, allowing casual dress can have clear advantages at virtually no cost."[49]

While casual dress increases behavioral informality by having managers and workers at all levels dress in a more relaxed manner, open office systems increase behavioral informality by significantly increasing the level of communication and interaction among employees. By definition, **open office systems** try to increase interaction by removing physical barriers that separate workers. One characteristic of open office systems is that they have much more shared space than private space. **Shared spaces** are areas used by and open to all employees. Cubicles with low-to-the-ground partitions (used by 75 percent of office workers), offices with no doors or with glass walls, collections of comfortable furniture that encourage people to congregate, and common areas with tables and chairs that encourage people to meet, work, or eat together are examples of shared space.[50] In contrast, **private spaces**, such as private offices with doors, are used by and open to just one employee.

DIGITAL VISION

Open-offices encourage communication and interaction throughout an organization, but they have their drawbacks as well. In fact, sales of taller cube walls, like those shown here, are increasing, while sales of traditional four-foot walls are decreasing.

open office systems
Offices in which the physical barriers that separate workers have been removed in order to increase communication and interaction.

shared spaces
Spaces used by and open to all employees.

private spaces
Spaces used by and open to just one employee.

The advantage of an open office with extensive shared space is that it dramatically increases the amount of unplanned, spontaneous, and chance communication between employees.[51] People are much more likely to plan meetings and work together when numerous "collaboration spaces" with conference tables, white boards, and computers are readily available. With no office walls, inviting common areas, and different departments mixed together in large open spaces, spontaneous communication occurs more often. After Radio Shack moved from two traditional, 19-story office towers into a new headquarters with open offices, cubicles, and immense amounts of shared space, the volume of corporate email dropped by 37 percent because people were much more likely to run into and actually talk to each other. Senior vice president Laura Moore says, "For somebody to stick his or her head over your workplace [cubicle] is accepted protocol. That has made [Radio Shack] executives much more approachable."[52] Also, open office systems increase chance encounters by making it much more likely that people from different departments or areas will run into each other. When Sigma-Aldrich, a biotechnology firm, built a new office with a three-story, open air staircase at the center of the building, the main goal, according to Keld Sorensen, director of research and development, was increasing "interaction."[53] In fact, the open staircase, which is complemented by benches and expansive landings (so people would sit and talk) on each story has led to 156 percent more chance encounters compared to the old building, which had elevators and an enclosed stairwell. Indeed, soon after the move to the new office, two scientists from opposite sides of the building ran into each other on the stairs, stopped to talk, and ended up generating a significant new reagent for scientific testing.

Not everyone is enthusiastic about open offices, however. For example, Ingrid Tischer, who sits in a cubicle next to the kitchen in her office, says she can't help overhearing others' conversations and frequently joins in. Because of the location of her cubicle, "I know things about my colleagues' lives, and they know things about mine."[54] In fact, cubicle dwellers are interrupted by "noise, visual distractions, and chatty visitors" up to 21 times a day. And, since it takes about three minutes each time to refocus on what you were doing, cubicle workers can lose an hour a day to these interruptions.[55] Attorney Phillip Fisher says, "I honestly don't know how people can concentrate in a cubicle."[56] For this reason, Sun Microsystems and Microsoft give their employees private offices. William Agnello, Sun's vice president of real estate and the workplace, says, "We have researched the heck out of this. Our studies show that, for our engineers, there are just too many distractions and interruptions."[57] Microsoft's John Pinette agrees: "Private offices allow our employees to concentrate on their work and to avoid unnecessary distractions—[which is] obviously critical when you're doing something that requires as much focus as developing software does."[58]

Indeed, because there is so much shared space and so little private space, companies with open systems have to take steps to give employees privacy when they need to concentrate on individual work. One step is simply to use taller cubicles. Indeed, Herman Miller, a manufacturer of office furniture and systems, has seen sales of its 62-inch-high cubicle panels increase by 18 percent while sales of its 46-inch-high panels have dropped by 19 percent. Another approach is to install white noise machines to prevent voices and other noises from disrupting others.[59] At Procter & Gamble's headquarters in Cincinnati, white noise from two interior waterfalls provides a constant background sound that mutes other noises. Yet another approach is to make conference rooms available. In contrast to traditional offices, where such rooms are used for meetings, many employees in open systems reserve conference rooms when they need private time to work. Another possibility is to turn a cubicle into a more private space. When Mark Saunders, of GlaxoSmithKline Consumer Healthcare, moved from a private office to a cubicle at the end of a busy hallway, he said he "felt sensory overload." To make it easier for him to concentrate, the company's office design team created a nylon screen that can be placed around his cubicle to block out visual distractions.[60] If your office doesn't provide such screens, you can always fork out $39.95 for the Cube-a-Door®, a free-standing cardboard partition, stamped with the words, "Work in Progress. Do Not Disturb," that will serve as a privacy screen or "door" to your cubicle when you need to get work done and screen out interruptions.

DOING THE RIGHT THING

DON'T SCAVENGE THAT OFFICE IF SOMEBODY IS STILL IN IT

It's like roadkill in the animal kingdom. As soon as the word gets out that someone is leaving the company, the remaining coworkers start scheming to scavenge the office leftovers—chairs, computer monitors, filing cabinets, and even staplers. Mary Wong, president of a human resources consulting company, says, "This issue is practically everywhere. . . , professionals—anyone you and I would normally consider to be very adult—turn into children" over the prospect of picking an empty office clean of its "goodies." Sometimes, however, and this is where it gets disrespectful, office scavengers move in before the employee, who's often been laid off, has left. Ethics consultant Steve Lawler tells the story of a laid-off manager who, just hours after hearing the bad news, was already getting requests for the expensive Herman Miller Aeron chair in which he was still sitting. Office scavenging is a strange and predictable aspect of office life. It happens everywhere. But, if you're going to scavenge, and you probably will, do the right thing by maintaining the dignity of departing coworkers: wait till the office is empty before you strike.[61]

Review 4: Intraorganizational Processes

Today, companies are using reengineering, empowerment, and behavioral informality to change their intraorganizational processes. Through fundamental rethinking and radical redesign of business processes, reengineering changes an organization's orientation from vertical to horizontal. Reengineering changes work processes by decreasing sequential and pooled interdependence and by increasing reciprocal interdependence. Reengineering promises dramatic increases in productivity and customer satisfaction, but it has been criticized as simply an excuse to cut costs and lay off workers. Empowering workers means taking decision-making authority and responsibility from managers and giving it to workers. Empowered workers develop feelings of competence and self-determination and believe that their work has meaning and impact. Workplaces characterized by behavioral informality are spontaneous and casual. The formality or informality of a workplace depends on four factors: language usage, conversational turn taking and topic selection, emotional and proxemic gestures, and physical and contextual cues. Casual dress policies and open office systems are two of the most popular methods for increasing behavioral informality.

5 INTERORGANIZATIONAL PROCESSES

An **interorganizational process** is a collection of activities that occur *among companies* to transform inputs into outputs that customers value. In other words, many companies work together to create a product or service that keeps customers happy. For example, when you purchase a Liz Claiborne outfit, you're not just buying from Liz Claiborne; you're also buying from a network of 250 suppliers in 35 countries from Saipan, to Mexico, to Cambodia, to China that make those clothes for Liz Claiborne. After Liz Claiborne's New York–based designers come up with a concept, it is shipped to a "sourcing" team in Hong Kong, which changes the design as needed to keep costs low and then finds companies that can produce the right fabrics and the entire line of clothing. Those companies then manufacture the first product prototypes and send them back to the New York designers for final inspection and possibly last-minute changes.[62]

interorganizational process
A collection of activities that take place among companies to transform inputs into outputs that customers value.

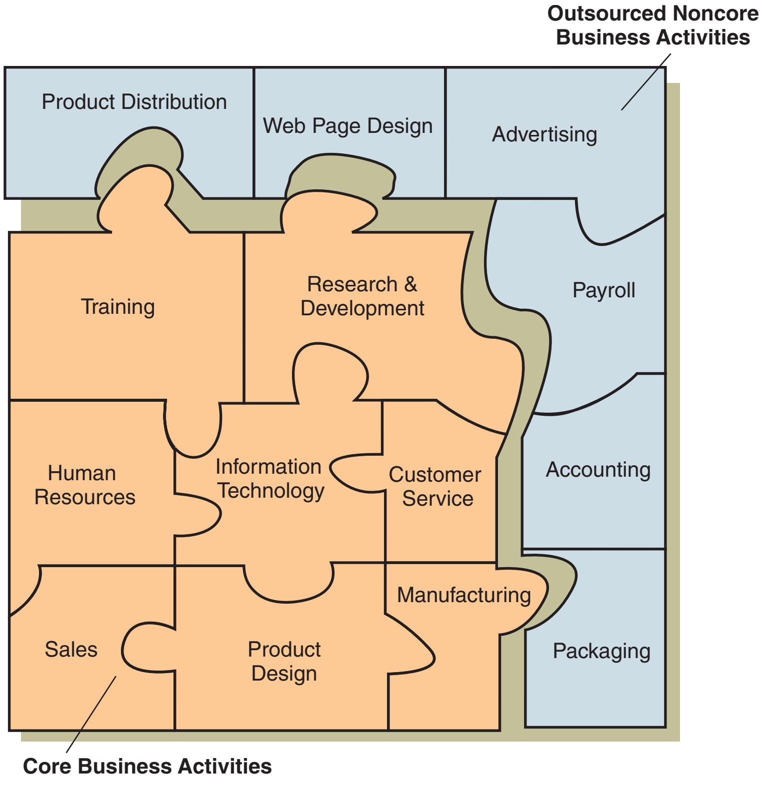
In this section, you'll explore interorganizational processes by learning about **5.1 modular organizations** and **5.2 virtual organizations.**[63]

5.1 Modular Organizations

Stephen Roach, chief economist for investment bank Morgan Stanley, says that companies increasingly want to take "functions that aren't central to their core competency," and outsource them.[64] Except for the core business activities that they can perform better, faster, and cheaper than others, **modular organizations** outsource all remaining business activities to outside companies, suppliers, specialists, or consultants. The term *modular* is used because the business activities purchased from outside companies can be added and dropped as needed, much like adding pieces to a three-dimensional puzzle. Exhibit 9.13 depicts a modular organization in which the company has chosen to keep training, human resources, sales, product design, manufacturing, customer service, research and development, and information technology as core business activities, but it has outsourced the noncore activities of product distribution, Web page design, advertising, payroll, accounting, and packaging.

modular organization
An organization that outsources noncore business activities to outside companies, suppliers, specialists, or consultants.

Exhibit 9.13
Modular Organization



Modular organizations have several advantages. First, because modular organizations pay for outsourced labor, expertise, or manufacturing capabilities only when needed, they can cost significantly less to run than traditional organizations. For example, when Apple came up with its iPod digital music player, it outsourced the audio chip design and manufacture to SigmaTel in Austin, Texas, and final assembly to Asutek Computers in Taiwan. Doing so not only reduced costs and sped up production (beating Sony's Network Walkman to market), but also allowed Apple to do what it does best—design innovative products with easy-to-use software.[65] Furthermore, after other companies imitated Apple by producing their own digital music players, Apple was able to take advantage of its lower costs by aggressively cutting prices.[66] To obtain these advantages, however, modular organizations need reliable partners—vendors and suppliers that they can work closely with and can trust.

Modular organizations have disadvantages, too. The primary disadvantage is the loss of control that occurs when key business activities are outsourced to other companies. Also, companies may reduce their competitive advantage in two ways if they mistakenly outsource a core business activity. First, as a result of competitive and technological change, the noncore business activities a company has outsourced may suddenly become the basis for competitive advantage. Second, related to that point, suppliers to whom work is outsourced can sometimes become competitors.

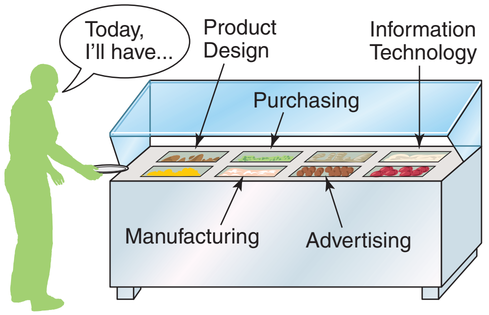
5.2 Virtual Organizations

virtual organization An organization that is part of a network in which many companies share skills, costs, capabilities, markets, and customers to collectively solve customer problems or provide specific products or services.

In contrast to modular organizations in which the interorganizational process revolves around a central company, a **virtual organization** is part of a network in which many companies share skills, costs, capabilities, markets, and customers with each other. Exhibit 9.14 shows a virtual organization in which, for "today," the parts of a virtual company consist of product design, purchasing, manufacturing, advertising, and information technology. Unlike modular organizations, in which the outside organizations are tightly linked to one central company, virtual organizations work with some companies in the network alliance, but not with all. So, whereas a puzzle with various pieces is a fitting metaphor for a modular organization, a potluck dinner is an appropriate metaphor for a virtual organization. All participants bring their finest food dish, but only eat what they want.

Another difference is that the working relationships between modular organizations and outside companies tend to be more stable and longer lasting than the shorter, often temporary relationships found among the virtual companies in a network alliance. Thus, the composition of a virtual organization is always changing. The combination of network partners that a virtual corporation has at any one time depends on the expertise needed to solve a particular problem or provide a specific product or service. This is why the businessperson in the network organization shown in Exhibit 9.14 is saying, "Today, I'll have . . . ." Tomorrow, the business could want something completely different. In this sense, the term *virtual organization* means the organization that exists "at the moment." For example, 19 small companies in Pennsylvania have formed a network of virtual organizations that they call the "Agile Web."[67] Together, the companies have expertise in product development and design, machining, metal fabrication, diecasting, plastic-injection molding, finishing and coating, and the design and manufacture of electronic components. Tony Nickel, who coordinates business opportunities for the 19 Web members, says, "We do have multiple machine shops and multiple sheet-metal shops. If only one is needed, I make the decision based on the nature of the [customer's] request and the areas of specialization of the member firms." He adds, "We've already had one occasion where, while negotiating with a customer, we discovered that we really didn't have the right Web member for a particular part—so we changed members."[68]

Exhibit 9.14
Virtual Organization



Virtual organizations have a number of advantages. They let companies share costs. And, because members can quickly combine their efforts to meet customers' needs, they are fast and flexible. For example, Tony Nickel of the Agile Web says, "Where we think we really can have rapid response is when a customer wants help in the design and building of an assembly or system. Then I can bring members of the Web to the table—or to the customer's facility—right away; the next day, if required. We are able to assemble a team from the Web within 24 hours if that is what the customer wants."[69] Finally, because each member of the network alliance is the "best" at what it does, in theory, virtual organizations should provide better products and services in all respects.

As with modular organizations, a disadvantage of virtual organizations is that once work has been outsourced, it can be difficult to control the quality of work done by network partners. The greatest disadvantage, however, is that tremendous managerial skills are required to make a network of independent organizations work well together, especially since their relationships tend to be short and based on a single task or project. Virtual organizations are using two methods to solve this problem. The first is to use a *broker*, like Tony Nickel. In traditional, hierarchical organizations, managers plan, organize, and control. But, with the horizontal, interorganizational processes that characterize virtual organizations, the job of a broker is to create and assemble the knowledge, skills, and resources from different companies for outside parties, such as customers.[70] The second way to make networks of virtual organizations more manageable is to use a *virtual organization agreement* that, somewhat like a contract, specifies the schedules, responsibilities, costs, payouts, and liabilities for participating organizations.[71] The Agile Web has operationalized its virtual organization agreement on a day-to-day basis through Web-based software that is used by all 19 companies to schedule work, share design specifications, and provide anything else they need to complete their work for particular customers.[72] For more information on how a virtual organization works, see **http://www.agileweb.com.**

Review 5: Interorganizational Processes

Organizations are using modular and virtual organizations to change interorganizational processes. Because modular organizations outsource all noncore activities to other businesses, they are less expensive to run than traditional companies. However, modular organizations require extremely close relationships with suppliers, may result in a loss of control, and could create new competitors if the wrong business activities are outsourced. Virtual organizations participate in a network in which they share skills, costs, capabilities, markets, and customers. As customer problems, products, or services change, the combination of virtual organizations that work together changes. Virtual organizations can reduce costs, respond quickly, and, if they can successfully coordinate their efforts, produce outstanding products and service.

Key Terms

authority, *280*
autonomy, *287*
behavioral formality, *293*
behavioral informality, *293*
centralization of authority, *283*
chain of command, *281*
complex matrix, *280*
customer departmentalization, *276*
decentralization, *283*
delegation of authority, *282*
departmentalization, *274*
empowering workers, *292*
empowerment, *293*
feedback, *287*
functional departmentalization, *274*
geographic departmentalization, *277*
internal motivation, *286*
interorganizational process, *297*
intraorganizational process, *290*
job characteristics model (JCM), *286*
job design, *284*
job enlargement, *285*
job enrichment, *285*
job rotation, *285*
job specialization, *284*
line authority, *281*
line function *281*
matrix departmentalization, *278*
mechanistic organization, *288*
modular organization, *297*
open office systems, *295*
organic organization, *288*
organizational process, *273*
organizational structure, *272*
pooled interdependence, *292*
private spaces, *295*
product departmentalization, *275*
reciprocal interdependence, *292*
reengineering, *291*
sequential interdependence, *292*
shared spaces, *295*
simple matrix, *280*
skill variety, *287*
staff authority, *281*
staff function, *281*
standardization, *283*
task identity, *287*
task interdependence, *292*
task significance, *287*
unity of command, *281*
virtual organization, *298*

Concept Check

1. Compare an organizational structure and an organizational process.
2. What five methods have traditionally been used to departmentalize work and workers? Give one advantage and one disadvantage of each type.
3. How do managers generally describe organizational authority?
4. When delegating work, what is the relationship between responsibility, authority, and accountability?
5. Why do companies use job specialization? How can specialized jobs be modified to eliminate the boredom and low job satisfaction associated with them?
6. What is main concern of the job characteristics model?
7. What differentiates a mechanistic organization from an organic organization?
8. How do companies use reengineering to redesign organizational processes?
9. How do formal workplaces differ from informal workplaces?
10. What are the differences between modular and virtual organizations? What are their advantages and disadvantages?

Self-Assessment

FLEXIBILITY AND STRUCTURE

Every organization needs some degree of flexibility and standardization. In other words, companies need to have enough flexibility in their organizations to respond to changes in their business environment, but firms also must have certain structures in place to ensure smooth operations. For example, if someone gets hurt on company property, clear procedures about what to do in the case of an accident help managers respond quickly and confidently. But being overly committed to following rules can hamstring an organization and keep it from growing. As a manager, you will probably encounter both types of situations, and to respond appropriately you will need to have an idea of how comfortable you are in a formal environment versus a more loosely structured workplace. On page 619 of the Self-Assessment Appendix is a survey that can give you baseline information on your preferences for structure.

Management Decision

GARBAGE JOBS

Glancing at the newspaper machine in the lobby, you are happy to see the headline proclaiming the end of the garbage collectors' strike in a nearby city.[73] That kind of strike tends to have a ripple effect on neighboring areas, and as the manager of a private waste collection company in the region, you breathe a sigh of relief.

Nonetheless, as you walk to your office, you can't help thinking about the job of your garbage collectors. It's repetitive, hot (or cold, depending on the season), anonymous, and relatively thankless. Your employees work in pairs, so each truck has one driver and one "thrower"—not much variety for either worker. There's not much on-the-job interaction either, as the driver is in the cab and the thrower rides on the back of the truck. And with the company looking into purchasing newer trucks that automatically lift and dump the garbage cans, you may even go to one person per truck.

In addition, to minimize the time it takes to collect the trash, you assign each team to the same neighborhood week after week. That ensures maximum efficiency: drivers subconsciously time traffic lights, pace themselves for starts and stops, and know the route without needing to consult a map. Even when collectors know the route, the work can be grueling. Each route has to be finished each day; no one will tolerate garbage left on the curb after the assigned pickup day. So, even if a traffic accident or construction brings traffic to a standstill, the garbage has to be collected each day according to schedule.

The more you think about it, on paper the job sounds dull—and somewhat stressful. As you fire up your computer and begin to look at your favorite industry blog, you wonder if you can make the job more interesting for your employees. Scanning the screen, you link to an article about a region in Britain that is putting defibrillators in garbage trucks to complement the ambulance service in rural areas. Well, that's not quite what you had in mind for making garbage collecting interesting for your employees, but still, it's something.

Questions

1. Can you use the job characteristics model (JCM) to redesign the job of the trash collector to be internally motivating? How?
2. Assume that the trash collection job is not internally motivating. Identify areas where you can strengthen the job's core characteristics and give specific examples.
3. Is it possible to redesign the very specialized job of a garbage collector to make it more satisfying? Is a redesign feasible? In other words, do you redesign the job or keep it as is? Explain your reasoning.

Management Team Decision

PLUSH MANAGEMENT PERKS: PARTAKING OR PRUNING?

"They do, too!" "*They do not!*" "You don't know what you're talking about." "*See, it's attitudes like yours that prove my point!*"

Ah, nothing like hearing your two top executives argue during lunch to raise your blood pressure.[74] You knew that Sam, the VP of Sales, was going to get mad when Catherine, the VP of Human Resources, suggested getting rid of executive perks (the private dining room, company cars, first-class air travel, etc.). It took Sam 25 years to become a vice president, and understandably, he doesn't want to see his perks and rewards reduced. You didn't think it was possible for someone to get that mad that fast, though. Given the way Sam's face instantly turned beet red when Catherine suggested that the reserved parking spaces be eliminated, it's a good thing she caught him between bites or he might have choked on his shrimp salad.

Well, with executive perks topping the agenda for the annual executive retreat next weekend, Sam and Catherine's argument has given you something to think about. Is Catherine right? Should all executive perks be eliminated? Or is Sam right? Should the executive perks be left alone? After all, even Catherine got defensive when Sam asked her how happy she'd be if the company closed its on-site day care. When she responded, "They wouldn't dare do that," Sam barked, "That's exactly the way I feel about your recommendations!"

Well, you need to get your thoughts sorted out. A good place to start is with the list of executive perks currently being offered by the company:

- company cars
- reserved parking spaces
- company cellular phones
- personal financial counseling
- personal liability insurance
- executive dining room
- first-class air travel
- free travel for a spouse on extended business trips
- signing bonuses
- stock options
- country club memberships
- large, expensively furnished private offices
- home security systems
- home computer/office equipment

For this exercise, assemble a five-person management team and use the stepladder group decision-making technique described in Chapter 5. At each point in the stepladder, discuss all three questions and come to a consensus on each before adding the next group member.

Questions

1. Of the perks listed above, choose three that your managers are most likely to desire. In other words, which three executive perks would your managers scream the most about if you took them away? Explain your reasoning for each of your three choices.
2. Of the perks listed above, which three probably create the most resentment among your nonmanagerial work force? In other words, which three executive perks anger your workers the most? Explain your reasoning for each of your three choices.
3. Which of the following options is likely to benefit the company most in the long run?
   a. Eliminate all executive perks.
   b. Retain all executive perks.
   c. Selectively eliminate perks.

Explain the reasoning behind your choice. If you choose option (c), specify the perks you kept and explain why you kept them.

Develop Your Career Potential

"WORK" IN SOMEONE ELSE'S SHOES

Why is learning to see things from someone else's perspective one of the most difficult things to do in today's workplace? Sometimes, the inability to see things as others see them has to do with the people involved. Inexperience, ignorance, and selfishness can all play a role. In most organizations, however, the inability to see things from someone else's perspective results from the jobs themselves, not the people who do them. Because jobs limit who we talk to, what we talk about, what we think about, and what we care about at work, it should not be a surprise that people who perform different jobs have very different views about each other and the workplace.

For example, at Southwest Airlines the pilots who fly the planes and the ground crews who unload, load, and refuel them had little appreciation for each other. The ground crews felt that the pilots treated them like second-class citizens. The pilots couldn't understand why the ground crews weren't doing more to get their planes out of the gates and in the air as fast as possible. To improve understanding and help them see things from each other's perspective, Southwest created a program called the "Cutting Edge," in which the captains and ground crews learned a lot about each other's jobs. For example, the pilots brought the ground crews into their cockpits and showed them the detailed processes they were required to follow to get planes ready for departure. The pilots, on the other hand, gained appreciation and understanding by actually working as members of Southwest's ground crews. After several days of demanding ground crew work, Southwest pilot Captain Mark Boyter said:

I remember one time when I was working the ramp [as a member of a ground crew] in Los Angeles. I was dead tired. I had flown that morning and had a couple of legs in, so I got out of my uniform and jumped into my ramp clothes. That afternoon was very hot. It was in the 80s—I can't imagine how they do it on a 120-degree day in Phoenix. I was tired and hungry and hadn't had a break. Then I saw this pilot sitting up there in the cockpit eating his frozen yogurt. I said to myself, "Man, I'd like to be up there now." Then I caught myself. I'm up there every day. Now, I know that pilot has been up since 3:00 in the morning. I know that he's been flying an airplane since 6:00 A.M. I know it's 3:00 in the afternoon and he hasn't had a chance to get off and have a meal yet today. I know all that, and yet, the yogurt still looks really good to me. Then I thought, "How can a ramp agent [on the ground crew] in Los Angeles who works his butt off for two or three years, working double shifts two or three times a week, understand this? It hit me that there's a big gap in understanding here."[75]

The misunderstandings between Southwest's pilots and ground crews are not unique. All organizations experience them. Nurses and doctors, teachers and students, and managers and employees all have difficulty seeing things from each other's perspective. As Southwest's Cutting Edge program shows, however, you can minimize differences and build understanding by "working" in someone else's shoes.

Questions

1. Describe the job-related differences or tensions where you work. Who is involved? What jobs do they do? Explain why the job-related differences or tensions exist.
2. Since the best way to see things from someone else's perspective is to "work" in his or her shoes, see if you can spend a day, a morning, or even two hours performing one of these jobs. If that's not possible, spend some time carefully observing the jobs and then interview several people who perform them. Describe your boss's reaction to this request. Was he or she supportive? Why or why not?
3. Answer the following questions after you have worked the job or conducted your interviews. What most surprised you about this job? What was easiest? What was hardest? Explain. Now that you've had the chance to see things as others see them, what do you think would happen, good or bad, from letting other people in your organization work in someone else's shoes? Explain.

TakeTwo

Biz Flix
Reality Bites

Reality Bites is an American film starring Winona Ryder, Ethan Hawke, Ben Stiller, Steve Zahn, Janeane Garofalo, and David Spade. The plot follows the life of recent college graduate Lelaine Pierce (Ryder), who wants to make a documentary about her friends as a way to capture the strife and problems confronting her generation. In this scene, she is applying for a job at Wiener Schnitzel, a fast-food restaurant managed by David Spade.

What to Watch for and Ask Yourself

1. Using the terms from the chapter, outline the job of cashier as Spade is describing it in the clip.
2. Is the cashier position a line or staff function?
3. Describe the atmosphere at the restaurant.

Management Workplace
Black Diamond

Organizational structure should imitate the culture and purpose of the organization—at least, according to Peter Metcalf, founder of Black Diamond, a manufacturer of mountain climbing equipment. A company that started with 50 employees has grown to over 200 people who generate over $20 million in annual revenue. Black Diamond is now the leading maker of high-end climbing equipment, and paradoxically, it got there by creating a flat organization.

What to Watch for and Ask Yourself

1. What evidence do you see in the video that Black Diamond is an informal work environment?
2. Describe organizational authority at Black Diamond.
3. Why do you think a loose organizational structure is successful at Black Diamond?