

Chapter 1

Organization and Organization Theory

The importance of choosing the right strategy and then designing the right structure.

Even large, successful organizations are vulnerable, lessons are not learned automatically, and organizations are only as strong as their decision makers. Organizations are not static; they continuously adapt to shift in the external environment. It helps us diagnose, and respond to emerging organizational needs and problems.

The Evolution of Organization Theory and Design

Organization Theory – Way to see and analyze organizations more accurately and deeply than we otherwise could. The way to see and think about organization theory is based on patterns and regularities in organizational design and behaviour.

Historical Perspectives on how to design and manage work in order to increase productivity and help organization attain maximum efficiency:

- **Efficiency is Everything:** According to Frederick Winslow Taylor (**scientific management**), decisions about organizations and job design should be based on precise, scientific study of individual situations. Managers should develop precise, standard procedures for doing each job.
- **Spaulding (1874-1952):** 8 fundamental necessities of management (authority & responsibility, division of labor, adequate capital & human resources, etc)
- **Turnbo-Malone (1869-1957):** Founder of beauty, haircare and cosmetics business: franchising system.
- **Fayol (1841-1929),** mining engineer: Getting organized using administrative principles and bureaucratic organizations: 14 principles of management.
- **How to Get Organized: Administrative principles** looked at the design and functioning of the organization as a whole
(The scientific management and administrative principles approaches were powerful and gave organizations fundamental new ideas for establishing high productivity and increasing prosperity.)
Administrative principles → **Bureaucratic organizations:** emphasized designing and managing organizations on an impersonal, rational basis through elements such as clearly defined authority and responsibility, formal record keeping, and uniform application of standard rules.
- **What about People? Hawthorne Studies** – positive treatment of employees improved their motivation and productivity.

Current Challenges

- **Globalization:** Markets, technologies, and organizations are increasingly interconnected. This growing interdependence means that the environment for companies is becoming extremely complex and competitive. Organizations have to learn to cross lines of time, culture and geography in order to survive.
- **Ethics and Social Responsibility:** The list of executives and major corporations involved in financial and ethical scandals continues to grow.
- **Speed of Responsiveness:** Respond quickly and decisively to environmental changes, organizational crises, or shifting customer expectations. Stay up to date with globalization and advancing technology. Employees, not productive machinery, have the power and knowledge needed to keep the company competitive.
- **The Digital Workplace:** Organizations have been engulfed by information technology that affects how organizations are designed and managed. E-business is booming. These advances reach far beyond the boundaries of the physical organization, building flexible e-links between a company and its employees, suppliers, contract partners, and customers.
- **Diversity:** The workforce as well as the customer base is changing dramatically. Many of today's leading organizations have an international face. The growing diversity brings a variety of challenges however managing it is the most rewarding challenges for organizations competing on a global basis.

What Is an Organization?

Organizations are social entities that are goal directed, designed as deliberately structured and coordinated activity systems, and linked to the external environment.

Organizations comprise people and their relationships with one another. An organization exists when people interact with one another to perform essential functions that help attain goals.

Managers deliberately structure and coordinate organizational resources to achieve the organization's purpose.

Types of Organizations

- Small, family owned shops, large, multinational corporations
- For-profit businesses
- **Non-profit organizations:** Direct their efforts toward generating some kind of social impact. Non-profit managers, committed to serving clients with limited funds, must focus on keeping organizational costs as low as possible and demonstrating a highly efficient use of resources. Measure goals and not money. Some non-profits have created social enterprises that are designed to use business practices to achieve social missions. ***Social enterprises** are a form of community economic development in which an organization exchanges services and goods in the market as a means to realizing its social objectives or mission.

Importance of Organizations

Organizations are central to people's lives and exert a tremendous influence.

Reasons organizations are important you and to society:

- Bring together resources to accomplish specific goals
- Produce goods and services that customers want at competitive prices
- Create a drive for innovation rather than a reliance on standard products and outmoded ways of doing things.
- Adapt to and influence a rapidly changing environment
- Create value for their owners, customers, and employees
- Accommodate today's challenges of workforce diversity and growing concerns over ethics and social responsibility, as well as find effective ways to motivate employees to work together to accomplish organizational goals
- Use modern manufacturing and information technologies

Perspectives on Organizations

Open Systems: interact with the environment to survive; it both consumes resources and exports resources to the environment.

To understand the whole organization, we must view it as a system. A **system** is a set of interacting elements that acquires inputs from the environment, transforms them, and discharges outputs to the external environment.

Closed System: does not depend on its environment; it would be autonomous, enclosed, and sealed off from the outside world.

An Open System and Its Subsystems

(Raw materials, People, Information resources, Financial resources) → Input → Transformation process → Output (Products and Services)

Subsystems: Boundary spanning Input (exchanges with the external environment), Transformation Process (production, maintenance, adaptation, management), Boundary spanning Output

Organizational Configuration:

One framework proposed by Henry Mintzberg, suggests that every organizations has five parts. The five parts of the organization may vary in size and importance depending on the organization's environment, technology, and other factors.

- **Technical Core:** People who do the basic work of the organization. It performs the production subsystem function and actually produces the product and service outputs of the organization.

- **Management:** Responsible for directing and coordinating other parts of the organization. **Top management** provides direction, strategy, goals, and policies for the entire organization or major divisions. **Middle management** is responsible for implementation and coordination at the departmental level. In traditional organizations, middle managers are responsible for mediating between top management and the technical core.
- **Technical Support:** Helps the organization adapt to the environment. It is responsible for creating innovations in the technical core, helping the organization change and adapt.
- **Administrative Support:** Responsible for the smooth operation and upkeep of the organization, including its physical and human elements.

Dimensions of Organizational Design

The next step for understand organizations is to look at dimensions that describe specific organizational design traits.

Organizational dimensions fall into two types: **structural and contextual**.

- **Structural Dimensions:** Provide labels to describe the internal characteristics of an organization. They create a basis for measuring and comparing organizations.
- **Contextual Dimensions:** Characterize the whole organization including its size, technology, culture, environment, and goals and strategy. They describe the organizational setting that influences and shapes the structural dimensions.

Contextual dimensions can be envisioned as a set of overlapping elements that underlie an organization's structure and work processes.

Structural Dimensions

- **Formalization:** Refers to the amount of written documentation in the organization. Documentation includes procedures, job descriptions, regulations, and policy manuals. Formalization is often measured by simply counting the number of pages of documentation within the organization.
- **Specialization:** Organizational tasks are subdivided into separate jobs.
- **Hierarchy of Authority:** Describes who reports to whom and the span of control for each manager.
- **Centralization:** Hierarchical level that has authority to make decision. When decision making is kept at the top level, the organization is centralized. When decisions are delegated to lower organizational levels, it is decentralized.
- **Professionalism:** Level of formal education and training of employees.
- **Personnel Ratio:** Refer to the deployment of people to various functions and departments.

Contextual Dimensions

- **The Organization's Goals and Strategy:** Define the purpose and competitive techniques that set it apart from other organizations. Goals and strategies define the scope of operations and the relationship with employees, customers, and competitors.
- **The Environment:** Includes all elements outside the boundary of the organization. The environmental elements that affect an organization the most are often other organizations.
- **Size:** The organization's magnitude as reflected in the number of people in the organization.
- **Culture:** Underlying set of key values, beliefs, understandings, and norms shared by employees. These underlying values may pertain to ethical behaviour, commitment to employees, efficiency, or customer service, and they provide the glue to hold organization members together.
- **Technology:** Refers to the tools, techniques, and actions used to transform inputs into outputs.

Performance and Effectiveness Outcomes

The whole point of understanding varying perspectives and the structural contextual dimensions of organization is to design the organization in such a way as to achieve high performance and effectiveness.

Efficiency refers to the amount of resources used to achieve the organization's goals.

Effectiveness meaning the degree to which an organization achieves its goals.

To be effective, organizations need clear, focused goals and appropriate strategies for achieving them.

Managers carefully balance the needs and interests of various stakeholder in setting goals and striving for effectiveness.

Stakeholder Approach: Integrates diverse organizational activities by looking at various organizational stakeholder and what they want from the organization. A **stakeholder** is performance.

It can be difficult for managers to satisfy multiple stakeholders. In all organizations, managers have to evaluate stakeholder concerns and establish goals that can achieve at least minimal satisfaction for major stakeholder groups.

The Environment: Many problems occur when all organizations are treated as similar.

Contingency: one thing depends on other things. For organizations to be effective, there must be a "goodness of fit" between their structure and the conditions in their external environment. Contingency theory means "it depends."

Today, almost all organizations operate in highly uncertain environments.

Contemporary Organizational Design

The science of **chaos theory** suggests that relationships in complex, adaptive systems – including organizations – are nonlinear and made up of numerous interconnections and divergent choices that create unintended effects and render the universe unpredictable.

Many managers are redesigning their companies toward something called the learning organization.

The **learning organization** promotes communication and collaboration so that everyone is engaged in identifying and solving problems, enabling the organization to continuously experiment, improve, and increase its capability. The learning organization is based on equality, open information, little hierarchy, and a culture that encourages adaptability and participation, enabling ideas to bubble up from anywhere to help the organization seize opportunities and handle crises.

Efficient Performance versus the Learning Organization

- **From Vertical to Horizontal Structure:** The vertical hierarchy is dramatically flattened, with perhaps only a few senior executives in traditional support functions such as finance or human resources.
- **From Routine tasks to Empowered Roles:** A **task** is a narrowly defined piece of work assigned to a person. A **role** is a part in a dynamic social system. A role has discretion and responsibility, allowing the person to use his or her discretion and ability to achieve an outcome or meet a goal.
- **From Formal Control Systems to Shared Information:** In learning organizations, the widespread sharing of information keeps the organization functioning at an optimal level. All employees have complete information about the company so they can act quickly.
- **From Competitive to Collaborative Strategy:** The accumulated actions of an informed and empowered workforce contribute to strategy development. Since all employees are in touch with customers, suppliers, and new technology, they help identify needs and solutions and participate in strategy making.
- **From Rigid to Adaptive Culture:** For an organization to remain healthy, its culture should encourage adaptation to the external environment. Organizations that were highly successful in stable environments often become victims of their own success when the environment begins to change dramatically. In a learning organization, the culture encourages openness, equality, continuous improvement, and change.

Levels of Analysis

Four **levels of analysis** normally characterize organizations.

- Human being
- Group or department
- Organization

- External Environment

Organizational behaviour is the micro approach to organizations because it focuses on the individuals within organizations as the relevant units of analysis. Organizational behaviour examines concepts such as motivation, leadership style, and personality, and is concerned with cognitive and emotional differences among people within organizations.

Organizational theory is a macro examination of organizations because it analyzes the whole organization as a unit. Organizations theory is concerned with people aggregated into departments and organizations, and with the differences in structure and behaviour at the organization level of analysis.

Meso theory concerns the integration of both micro and macro levels of analysis. Individuals and groups affect the organization, and the organization in return influences individuals and groups. To thrive in organizations, managers and employees need to understand multiple levels simultaneously.

Chapter 2

Strategy, Organizational Design, and Effectiveness

The Role of Strategic Direction in Organizational Design

An organization is created to achieve some purpose.

Organizational design is the administration and execution of the strategic plan.

CEO, Top Management Team:

- Decide on the end purpose the organization will strive for and determine the direction it will take to accomplish it.
- Determine an organization's goals, strategy, and design, there in adapting the organization to a changing environment.
- Middle managers do much the same for major departments within the guidelines provided by top management.
- Setting new goals and strategic direction for the future.

Direction-Setting Process:

- Assessment of the opportunities and threats in the external environment.
- Managers assess internal strengths and weaknesses to define the company's distinctive competence compared with other firms in the industry.
- Define the overall mission and official goals based on the correct fit between external opportunities and internal strengths.
- Top managers and middle managers must select goals for their own units, and the ability to make such choices largely determines organizational success.

Organizational Purpose

Many types of goals exist in an organization, and each performs a different function. One major distinction is between the officially stated goals, or mission, of the organization and the operative goals the organization actually pursues.

Mission – The organization’s reason for existence

Mission describes the organization’s vision, its shared values and beliefs, and its reason for being. It can have a powerful impact on an organization. The mission is sometimes called the **official goals**.

- Mission statements provide a view into strategic goals:
 - Tell the outside world why the organization exists
 - Serve an important legitimating function
- Mission statements do (sometimes) make a difference:
 - Show how an organization differs from others
 - Provide direction, when organizations face a critical decision
 - Prioritize how resources will be allocated in an organization
 - Can be taken seriously and internalized by employees
- Missions matter when they fit with goals
 - Must “fit” with the structural elements (...along with incentive programs)

Missions matter... when they fit with the Operative Goals.

Operative Goals

Operative Goals is what an organization and its divisions actually set out to do in attaining their strategic goals.

- Operative goals describe specific measurable outcomes and are often concerned with the short run.
- Operative goals typically pertain to the primary tasks an organization must perform.
- Specific goals for each primary task provide direction for the day-to-day decisions and activities within departments.

Types of Operative Goals:

- **Overall Performance:** Profitability reflects the overall performance of for-profit organizations. Profitability may be expressed in terms of net income, earnings per share, or return on investment. Other overall performance goals are growth and output volume.
- **Resources:** Resource goals pertain to the acquisition of needed material and financial resources from the environment.
- **Market:** Market goals relate to the market share or market standing desired by the organization.

- **Employee Development:** Employee development refers to the training, promotion, safety, and growth of employees.
- **Innovation and Change:** Innovation goals pertain to internal flexibility and readiness to adapt to unexpected changes in the environment. Innovation goals are often defined in terms of the development of specific new services, products, or production processes.
- **Productivity:** Productivity goals concern the amount of output achieved from available resources. They typically describe the amount of resource inputs required to reach desired outputs and are thus stated in terms of “cost for a unit of production,” “units produced per employee,” or “resource cost per employee.”

Successful organizations use a carefully balanced set of operative goals.

The Importance of Goals

- Both official goals and operative goals are important for the organization, but they serve very different purposes. Official goals are mission statements describe a value system for the organization; operative goals represent the primary tasks of the organization. Official goals legitimize the organization; operative goals are more explicit and well defined.
- Managers need to understand the power of goals and use care when setting and implementing them.
- To act as guidelines for employee behaviour and decision making.
- Provide a standard for assessment. The level or organization performance, whether in terms of profits, units produced, degree of employee satisfaction, level of innovation, or number of customer complaints, needs a basis for evaluation.

A Framework for Selecting Strategy and Design

To support and accomplish the direction determined by organizational mission and operative goals, managers have to select specific strategy and design options that will help the organization achieve its purpose and goals within its competitive environment.

A **strategy** is a plan for interacting with the competitive environment to achieve organizational goals. Some managers think of goals and strategies as interchangeable, but for our purposes, **goals** define where the organization wants to go and strategies define how it will get there.

Two models for formulating strategies are the **Porter model of competitive strategies** and **Miles and Snow’s Strategy Typology**.

Porter’s Competitive Strategies

The organization concentrates on a specific market or buyer group, is further divided into **focused low-cost leadership** and **focused differentiation**. Managers evaluate two factors, competitive advantage and competitive scope. With respect to advantage, managers determine whether to compete through lower cost or through the ability to offer unique or distinctive

products and services that can command a premium price. Managers then determine whether the organization will compete on a broad scope (competing in many customer segments) or narrow scope (competing in a selected customer segment or group of segments).

- **Differentiation Strategy:** organizations attempt to distinguish their products or services from others in the industry. A differentiation strategy can reduce rivalry with competitors and fight off the threat of substitute products because customers are loyal to the company's brand.
- **Low-Cost Leadership Strategy:** tries to increase market share by emphasizing low cost compared to competitors. The low-cost leadership strategy is concerned primarily with stability rather than taking risks or seeking new opportunities for innovation and growth. A low-cost position means a company can undercut competitors' prices and still offer comparable quality and earn a reasonable profit.
- **Focus Strategy:** the organization concentrates on a specific regional market or buyer group. The company will try to achieve wither a low-cost advantage or a differentiation advantage within a narrowly defined market.

Porter's competitive strategy model has been criticized for being too generic and therefore of minimal use to managers. As well, the model does not account for organizations that are successful even though they are not pursuing one particular strategy.

Miles and Snow's Strategy Typology

Based on the idea that managers seek to formulate strategies that will be congruent with the external environment. Organizations strive for a fit among internal organization characteristics, strategy, and the external environment.

- **Prospector:** To innovate, take risks, seek out new opportunities, and grow. This strategy is suited to a dynamic, growing environment, where creativity is more important than efficiency. Learning orientation; flexible, fluid, decentralized structure.
- **Defender:** Almost the opposite of the prospector. Rather than taking risks and seeking out new opportunities, the defender strategy is concerned with stability or even retrenchment. This strategy seeks to hold onto current customers, but it neither innovates nor seeks to grow. Efficiency orientation; centralized authority and tight cost control. Emphasis on production efficiency; low overhead. Close supervision; little employee empowerment.
- **Analyzer:** tries to maintain a stable business while innovating on the periphery. It seems to lie midway between the prospector and the defender. Some products will be targeted toward stable environments in which an efficiency strategy designed to keep current customers is used. Others will be targeted toward new, more dynamic environments where growth is possible. The analyzer attempts to balance efficient production for current product lines with the creative development of new product lines. Balances efficiency and learning; tight cost control with flexibility and adaptability. Efficient

production for stable product lines; emphasis on creativity, research, risk taking for innovation.

- **Reactor:** not really a strategy. Rather, reactors respond to environmental threats and opportunities in an ad hoc fashion. No clear organizational approach; design characteristics may shift abruptly, depending on current needs.

How Strategies Affect Organizational Design

Choice of strategy affects internal organization characteristics. Organizational design characteristics need to support the firm's competitive approach.

Low-Cost leadership: efficiency orientation, strong central authority; tight cost control, with frequent, detailed control reports. Standard operating procedures. Highly efficient procurement and distribution systems. Close supervision; routine tasks; limited employee empowerment.

Differentiation: Learning orientation; acts in a flexible, loosely knit way, with strong horizontal coordination. Strong capability in research. Values and building in mechanisms for customer intimacy. Rewards employee creativity, risk taking, and innovation.

Other Factor Affecting Organization Design

Strategy is one important factor that affects organization design. Ultimately, however, organization design is a result of numerous contingencies, which will be discussed throughout this book. The emphasis placed on efficiency and control versus learning and flexibility is determined by the contingencies of strategy, environment, technology, size and life cycle, and organizational culture.

Assessing Organizational Effectiveness

Understanding organizational goals and strategies, as well as the concept of fitting design to various contingencies, is a first step toward understanding organizational effectiveness.

Organizational goals represent the reason for an organization's existence and the outcomes it seeks to achieve. **Efficiency** is more limited concept that pertains to the internal workings of the organization. Organizational efficiency is the amount of resources used to produce a unit of output. It can be measured as the ratio of inputs to outputs. If one organization can achieve a given production level with fewer resources than another organization may achieve its strategic goals but be inefficient.

Sometimes efficiency leads to effectiveness.

Overall effectiveness is difficult to measure in organizations.

Contingency Effectiveness Approaches

Contingency approaches to measuring effectiveness focus on different parts of the organization. Organizations bring resources in from the environment, and those resources are transformed into outputs delivered back into the environment. Different approaches: goal, resource-based, internal-process.

→ **Resource-based Approach:** looks at the input side of the transformation process. It assumes organizations must be successful in obtaining and managing valued resources in order to be effective. To obtain scarce and valued resources and successfully integrate and manage them.

Indicators: Obtaining and successfully managing resources is the criterion by which organization effectiveness is assessed.

- Bargaining position – the ability of the organization to obtain from its environment scarce and valued resources, including financial resources, raw materials, human resources, knowledge, and technology
- The abilities of the organization's decision makers to perceive and correctly interpret the real properties of the external environment
- The abilities of managers to use tangible and intangible resources in day-to-day organizational activities to achieve superior performance.
- The ability of the organization to respond to changes in the environment.

Usefulness: The resource-based approach is valuable when other indicators of performance are difficult to obtain.

→ **Internal-Process Approach:** effectiveness is measured as internal organizational health and efficiency. An effective organization has a smooth, well-oiled internal process; employees are happy and satisfied; and department activities mesh with one another to ensure high productivity. This approach does not consider the external environment. The important element in effectiveness is what the organization does with the resources it has, as reflected in internal health and efficiency.

Indicators: One indicator of internal-process effectiveness is the organization's economic efficiency.

- Strong organizational culture and positive work climate
- Team spirit, group loyalty, and teamwork
- Confidence, trust, and communication between workers and management
- Decision making near sources of information, regardless of where those sources are on the organizational chart
- Undistorted horizontal and vertical communication; sharing of relevant facts and feelings
- Rewards to managers for performance, growth, and development of subordinates and for creating an effective work group
- Interaction between the organization and its parts, with conflict that occurs over projects resolved in the interest of the organization.

Usefulness: The internal-process approach is important because the efficient use of resources and harmonious internal functioning are ways to assess organizational effectiveness.

→ **Goal Approach:** identifying an organization's output goals and assessing how well the organization has attained those goals. This is a logical approach because organizations do try to attain certain levels of output, profit, or client satisfaction. Measures progress toward attainment of those goals.

Indicators: Most important goals to consider are operative goals. Efforts to measure effectiveness have been more productive using operative goals than using official goals. Although official goals tend to be abstract and difficult to measure, operative goals reflect activities the organization is actually performing. Organizations often have multiple (and conflicting) operative goals.

Usefulness: Used in business organizations because output goals can be readily measured. Business firms typically evaluate performance in terms of profitability, growth, market share, and return on investment. However, identifying operative goals and measuring performance of an organization are not always easy. Most organization use a balanced approach to measuring goals.

An Integrated Effectiveness Model

The **competing-values model** tries to balance a concern with various parts of the organization rather than focusing on one part. This approach to effectiveness acknowledges that organizations do many things and have many outcomes. It combines several indicators of effectiveness into a single framework.

The model is based on the assumption that there are disagreements and competing viewpoints about what constitutes effectiveness. Managers sometimes disagree over which are the most important goals to pursue and measure.

Indicators: The first value dimension pertains to organization focus, which is whether dominant values concern issues that are internal or external to the firm. The second value dimension pertain to organization structure, and whether stability versus flexibility is the dominant structural consideration.

- **Open-systems emphasis:** management's primary goals are growth and resource acquisition. The dominant value is establishing a good relationship with the environment to acquire resources and grow.
- **Rational-goal emphasis:** management values of structural control and external focus. The primary goals are productivity, efficiency, and profit. The organization wants to achieve output goals in a controlled way.
- **Internal-process emphasis:** reflects the values of internal focus and structural control. The primary outcome is a stable organizational setting that maintains is left in an orderly way.
- **Human relation emphasis:** incorporates the values of an internal focus and a flexible structure. Management concern is for the development of human resources. Employees

are given opportunities for autonomy and development. Management works toward the sub-goals of cohesion, morale, and training opportunities. Organizations adopting this emphasis are more concerned with employees than with the environment.

Usefulness: The competing-values model makes two contributions. First, it integrates diverse concepts of effectiveness into a single perspective. It incorporates the ideas of output goals, resource acquisition, and human resource development as goals the organization tries to accomplish. Second, the model calls attention to effectiveness criteria as management values and shows how opposing values exist at the same time. Managers must decide which values they wish to pursue and which values will receive less emphasis.

The four competing values exist simultaneously, but not all will receive equal priority.

The Balanced Scorecard

The balanced scorecard is a comprehensive management control system that balances traditional financial measures with operational measures relating to an organization's critical success factors. A balanced scorecard contains four major perspectives: financial performance, customer service, internal business processes, and the organization's capacity for learning and growth.

Chapter 3

Fundamentals of Organizational Structure

Organizational Structure

There are three key components in the definition of organizational structure:

1. Organizational structure designates formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers and supervisors.
2. Organizational structure identifies the grouping together of individuals into departments and of departments into the total organization.
3. Organizational structure includes the design of systems to ensure effective communication, coordination, and integration of efforts across departments.

These three elements of structure pertain to both vertical and horizontal aspects of organizing. For example, the first two elements are the structural framework, which is the vertical hierarchy. The third element pertains to the pattern of interactions among organizational employees. An ideal structure encourages employees to provide horizontal information and coordination where and when needed.

Organizational structure is reflected in the **organizational chart**. An organizational chart is the visual representation of a whole set of underlying activities and processes in an organization at a particular point in time.

Information-Processing Perspective on Structure

The organization should be designed to provide both vertical and horizontal information flow as necessary to accomplish the organization's overall goals. If the structure does not fit the information requirements of the organization, people either will have too little information or will spend time processing information that is not vital to their tasks, thus reducing effectiveness.

Centralized Decision Making: problems and decisions are funnelled to top levels of the hierarchy for resolution.

Decentralized Decision Making: Emphasis on learning is associated with shared tasks, a horizontal hierarchy, few rules, face-to-face communication, many teams and task forces, and informal.

Organizations may have to experiment to find the correct degree of centralization or decentralization to meet their needs.

Vertical Information Linkages

Linkage is defined as the extent of communication and coordination among organizational elements.

Vertical linkages are used to coordinate activities between the top and bottom of an organization, are designed primarily for control of the organization. Employees at lower levels should carry out activities consistent with top-level goals, and top executives must be informed of activities and accomplishments at the lower levels.

Organizations may use any of a variety of structural devices to achieve vertical linkage:

- **Hierarchical Referral:** Hierarchy or chain of command, which is illustrated by the vertical lines. The lines of the organization chart act as communication channels. Problems and solutions are passed by the lines.
- **Rules and Plans:** Employees know how to respond without communicating directly with their manager. Rules provide a standard information source enabling employees to be coordinated without actually communicating about every task. A plan also provides standing information for employees (budget).
- **Vertical Information Systems:** Another strategy for increasing vertical information capacity. Vertical information systems include the periodic reports, written information, and computer-based communications distributed to managers.

Horizontal Information Linkages

Horizontal linkage refers to the amount of communication and coordination horizontally across organizational departments. Provides opportunities for coordination among employees to achieve unity of effort and organizational objectives. Horizontal linkage mechanisms often are not drawn on the organization chart, but nevertheless are part of organizational structure.

The following devices are structural alternatives that can improve horizontal coordination and information flow. Each device enables people to exchange information.

- **Information Systems:** To use cross-functional information systems. Computerized information systems can enable managers or front-line workers throughout the organization to routinely exchange information about problems, opportunities, activities and decisions. The database makes it easy for employees working across borders to seek out each other, share ideas and information, and build enduring horizontal connections.
- **Direct Contact:** One way to promote direct contact is to create a special liaison role. A liaison person is located in one department but has the responsibility for communicating and achieving coordination with another department.
- **Task Forces:** Liaison roles usually link only two departments. When linkage involves several departments, a more complex device such as a task force is required. A task force is a temporary committee composed of representatives from each organizational unit affected by a problem. Task forces are an effective horizontal linkage device for temporary issues. They solve problems by direct horizontal coordination and reduce the information load on the vertical hierarchy. Typically, they are disbanded after their tasks are accomplished.
- **Full-Time Integrator:** Frequently has a title such as product manager, project manager, program manager, or brand manager. Unlike the liaison person described earlier, the integrator does not report to one of the functional departments being coordinated. He or she is located outside the department and has the responsibility for coordinating several departments. Integrators need excellent people skills.
- **Teams:** Permanent task forces and are often used in conjunction with a full-time integrator. When activities among departments require strong coordination over a long period of time, a cross-functional team is often the solution. A virtual team is one that is made up of organizationally or geographically dispersed members who are linked primarily through advanced information and communications technologies.

Organizational Design Alternatives

The overall design of organizational structure indicates three elements:

- **Required Work Activities:** Departments are created to perform tasks considered strategically important to the company. As organizations grow larger and more complex, more and more functions need to be performed.
- **Reporting Relationships:** The chain of command should be an unbroken line of authority that links all persons in an organization and shows who reports to whom.
- **Departmental Grouping Options:** Affects employees because they share a common supervisor and common resources, are jointly responsible for performance, and tend to identify and collaborate with one another.

- **Functional Grouping:** Places together employees who perform similar functions or work processes or who bring similar knowledge and skills to bear.
- **Divisional Grouping:** People are organized according to what the organization produces.
- **Multifocused Grouping:** An organization embraces two structural grouping alternatives simultaneously. Often called the matrix design.
- **Horizontal Grouping:** Employees are organized around core work processes, the end-to-end work, information, and material flows that provide value directly to customers. All the people who work on a core process are brought together in a group rather than being separated into functional departments.
- **Virtual Network Grouping:** Most recent approach to departmental grouping. The organization is a loosely connected cluster of separate components. Departments are separate organizations that are electronically connected for the sharing of information and completion of tasks.

Functional, Divisional, and Geographical Designs

Functional grouping and divisional grouping are the two most common approaches to structural design.

Functional Structure

Activities are grouped together by common function from the bottom to the top of the organization. With a functional structure, all human knowledge and skills for specific activities are consolidated, providing a valuable depth of knowledge for the organization. This structure is most effective when in-depth expertise is critical to meeting organizational goals, when the organization needs to be controlled and coordinated through the vertical hierarchy, and when efficiency is important.

STRENGTHS	WEAKNESSES
Allows economies of scale within functional departments.	Slow response time to environmental changes.
Enables in-depth knowledge and skill development.	May cause decisions to pile up, hierarchy overload.
Enables organization to accomplish functional goals.	Leads to poor horizontal coordination among departments.
Is best with only one or a few products.	Results in less innovation.
	Involves restricted view of organizational goals.

If organization expands, it may have problems coordinating across departments, requiring stronger horizontal linkage mechanisms.

Functional Structure with Horizontal Linkages

There are more horizontal structures in today’s world. Very few of today’s successful companies can maintain a strictly functional structure. Organizations compensate for the vertical functional hierarchy by installing horizontal linkages.

Divisional Structure

Divisional structure is used here as the generic term for what is sometimes called a product structure or strategic business units. With this structure, divisions can be organized according to individual products, services, product groups, major projects or programs, divisions, businesses, or profit centres. The distinctive feature of a divisional structure is that grouping is based on organizational outputs. The divisional structure decentralized decision making, because the lines of authority converge a lower level in the hierarchy.

STRENGTHS	WEAKNESSES
Suited to fast change in unstable environment.	Eliminates economies of scale in functional departments.
Leads to customer satisfaction because product responsibility and contact points are clear.	Leads to poor coordination across product lines.
Involves high coordination across functions.	Eliminates in-depth competence and technical specialization.
Allows units to adapt to differences in products, regions, customers.	Makes integration and standardization across product lines difficult.
Best in large organizations with several products.	
Decentralizes decision making.	

Task forces and other linkage devices are needed to coordinate across divisions. A lack of technical specialization is also a problem in a divisional structure because employees identify with the product line rather than with a functional speciality.

Geographical Structure

A common structure in structural grouping is geography since each region of the country may have distinct tastes and needs. Each geographic unit includes all functions required to product and market products or services in that region.

The strengths and weaknesses of a geographic divisional structure are similar to the divisional organization characteristics. The organization can adapt to specific needs of its own region, and employees identify with regional goals rather than with national goals. Horizontal coordination within a region is emphasized rather than linkages across regions or to the national office.

Matrix Structure

Sometimes an organization's structure needs to be multifocused in that both product and function or product and geography are emphasized at the same time. The matrix can be used when both technical expertise and product innovation and change are important for meeting organizational goals. The matrix structure often is the answer when organizations find that functional, divisional, and geographical structures combined with horizontal linkage mechanisms will not work.

The matrix is a strong form of horizontal linkage. The unique characteristics of the matrix organization is that both product division and functional structures (horizontal and vertical) are implemented simultaneously.

Conditions for the Matrix

- **Condition 1:** Pressure exists to share scarce resources across product lines. It feels pressure for the shared and flexible use of people and equipment across those products.
- **Condition 2:** Environmental pressure exists for two or more critical outputs, such as for in-depth technical knowledge (functional structure) and frequent new products (divisional structure). This dual pressure means a balance of power is needed between the functional and product sides of the organization, and a dual-authority structure is needed to maintain that balance.
- **Condition 3:** The environmental domain of the organization is both complex and unstable. Frequent external changes and high interdependence between departments require a large amount of coordination and information processing in both vertical and horizontal directions.

Under these three conditions, the vertical and horizontal lines of authority must be given equal recognition. A dual-authority structure is thereby created so the balance of power between them is equal.

Many organizations have found a balance matrix hard to implement and maintain because one side of the authority structure often dominates. As a consequence, two variations of matrix structure have evolved:

- **Functional Matrix:** functional bosses have primary authority and the project or product managers simply coordinate product activities.
- **Product Matrix:** the project or product managers have primary authority and functional managers simply assign technical personnel to projects and provide advisory expertise as needed.

For many organizations, one of these approaches works better than the balanced matrix with dual lines of authority.

STRENGTHS	WEAKNESSES
Achieves coordination necessary to meet	Causes participants to experience dual

dual demands from customers.	authority, which can be frustrating and confusing.
Flexible sharing of human resources across products.	Means participants need good interpersonal skills and extensive training.
Suited to complex decisions and frequent changes in unstable environment.	Is time consuming; involved frequent meetings and conflict-resolution sessions.
Provides opportunity for both functional and product skill development.	Will not work unless participants understand it and adopt collegial rather than vertical-type relationships.
Best in medium sized organizations with multiple products.	Requires great effort to maintain power balance.

Horizontal Structure

Organizes employees around core processes. Organizations typically shift toward a horizontal structure during a procedure called **re-engineering**. Re-engineering, or business process re-engineering, basically means the redesign of a vertical organization along its horizontal workflows and processes. A **process** refers to an organized group of related tasks and activities that work together to transform inputs into outputs that create value for customers.

When a company is re-engineered to a horizontal structure, all the people throughout the organization who work on a particular process have easy access to one another so they can communicate and coordinate their efforts.

Characteristics:

- Structure is created around cross-functional core processes rather than tasks, functions, or geography. Thus, boundaries between departments are obliterated.
- Self-directed teams, not individuals, are the basis of the organizational design and performance.
- Process owners have responsibility for each core process in its entirety.
- People on the team are given the skills, tools, motivation, and authority to make decisions central to the team’s performance. Team members are cross-trained to perform one another’s jobs, and the combined skills are sufficient to complete a major organizational task.
- Teams have the freedom to think creatively and respond flexibly to new challenges that arise.
- Customers drive the horizontal corporation. Effectiveness is measured by end-of-process performance objectives, as well as customer satisfaction, employee satisfaction, and financial contribution.

- The culture is one of openness, trust, and collaboration, focused on continuous improvement. The culture values employee empowerment, responsibility, and well-being.

STRENGTHS	WEAKNESSES
Promotes flexibility and rapid response to changes in customer needs.	Determining core processes is difficult and time consuming.
Directs the attention of everyone toward the production and delivery of value to the customer.	Requires changes in culture, job design, management philosophy, and information and reward systems.
Each employee has a broader view of organizational goals.	Traditional managers may balk when they have to give up power and authority.
Promotes a focus on teamwork and collaboration.	Requires significant training of employees to work effectively in a horizontal team environment.
Improves quality of life for employees by offering them the opportunity to share responsibility, make decisions, and be accountable for outcomes.	Can limit in-depth skill development.

Virtual Network Structure

The virtual network structure extends the concept of horizontal coordination and collaboration beyond the boundaries of the traditional organization. **Outsourcing** means to contract out certain corporate functions. These interorganizational relationships reflect a significant shift in organizational design. A few organizations carry outsourcing to the extreme and create a virtual network structure. With a **virtual network structure**, sometimes called a modular structure, the firm subcontracts many or most of its major processes to separate companies and coordinates their activities from a small headquarters organization.

How the structure works: Rather than being housed under one roof or located within one organization, services such as accounting, design, manufacturing, marketing, and distribution are outsourced to separate companies that are connected electronically to a central office.

STRENGTHS	WEAKNESSES
Enables even small organizations to obtain talent and resources worldwide.	Managers do not have hand-on control over many activities and employees.
Gives a company immediate scale and reach without huge investments in factories, equipment, or distribution facilities	Requires a great deal of time to manage relationships and potential conflicts with contract partners.
Enables the organization to be highly flexible and responsive to changing needs.	There is a risk of organizational failure if a partner fails to deliver or goes out of

	business.
Reduces administrative overhead costs.	Employee loyalty and organizational culture might be weak because employees feel they can be replaced by contract services.

Hybrid Structures

Organizations often use a hybrid structure that combines characteristics of various approaches tailored to specific strategic needs. Most companies combine characteristics of functional, divisional, geographical, horizontal, or network structures to take advantage of the strengths of various structures and to avoid some of the weaknesses. Hybrid structures tend to be used in a rapidly changing environments because they offer the organization greater flexibility.

Applications of Structural Design

Design follows purpose. Each form of structure represents a tool that can help managers make an organization more effective, depending on the demands of its situation.

Structural Alignment

The most important decision that managers make about structural design is to find the right balance between vertical control and horizontal coordination, depending on the needs of the organization. Vertical control is associated with goals of efficiency and stability, while horizontal coordination is associated with learning, innovation, and flexibility.

Symptoms of Structural Deficiency

When organization structure is out of alignment with organizational needs, one or more of the following symptoms of **structural deficiency** appear:

- Decision making is delayed or lacking in quality.
- The organization does not respond innovatively to a changing environment.
- Employee performance declines and goals are not being met.
- Too much conflict is evident.

Chapter 4

Organization Size, Life Cycle, and Decline

Organization Size: Is bigger Better?

Companies in all industries, from aerospace to consumer products to media, strive for growth to acquire the size and resources needed to compete on a global scale, to invest in new technology, and to control distribution channels and guarantee access to markets.

There are other pressures for organizations to grow. Many executives have observed that firms must grow to stay economically healthy and believe that to stop growing is to stagnate. In

addition, growing organizations can be vibrant, exciting places to work, which enables these companies to attract and keep quality employees. When the number of employees is expanding, an organization can offer many challenges and opportunities for advancement.

Dilemmas of Large Size

Large

- Huge resources and economies of scale are needed for many organizations to compete globally.
- Large organizations have the resources to be a supportive economic and social force in difficult times.
- Large organizations also are able to get back to business more quickly following a disaster, giving employees a sense of security and belonging during an uncertain time.
- Large companies are standardized, often mechanistically run, and complex.
- Large organizations, once established, can be a presence that stabilizes a market for years and at which manager can work for many years. The organization can provide longevity, raises, and promotions.

Small

- The crucial requirements for success in a global economy are responsiveness and flexibility in fast-changing markets.
- Small scale can provide significant advantages in terms of quick reaction to changing customer needs or shifting environmental and market conditions.
- Small organizations have a flat structure and an organic, free-flowing management style that encourages entrepreneurship and innovation.
- The personal involvement of employees in small firms encourages entrepreneurial motivation and commitment, because employees personally identify with the company's mission.
- Many service companies remain small to better serve customers.

Big-Organization/Small-Organization Hybrid

Small companies can become victims of their own success as they grow large, shifting to mechanistic structure emphasizing vertical hierarchies rather than entrepreneurs. While, big companies may become committed to their existing products and technologies, and have a hard time supporting innovation for the future.

SOLUTION: Jack Welch, called the “big-company/small-company hybrid” that combines a large corporation's resources and reach with a small company's simplicity and flexibility.

The development of new organizational forms, with an emphasis on decentralizing authority and cutting out layer of the hierarchy, combined with the increasing use of information technology, is making it easier than even for organization to be simultaneously large and small, thus capturing the advantages of each.

Organizational Life Cycle

A useful way to think about organizational growth and change is the concept of an organizational life cycle, which suggest that organizations are born, grow older, and eventually die.

→ Stages of Life-Cycle Development

Growth is not easy. Each time an organization enters a new stage in the life cycle, it enters a whole new arena with a new set of rules for how the organization functions internally and how it related to the external environment. For technology companies to stay competitive, they have to successful progress through stages of the cycle faster.

- **Entrepreneurial Stage:** The start-up of an organization. When an organization is born, the emphasis is on creating a product or service and surviving in the marketplace. Control is based on the owners' personal supervision. Growth is from a creative new product or service.
 - **Crisis – Need for leadership:** Entrepreneurs must either adjust the structure of the organization to accommodate continued growth or else bring in strong managers who can do so.
- **Collectivity Stage:** The organization grows and develops a more elaborate design. If the leadership crisis is resolved, strong leadership is obtained and the organization begins to develop clear goals and direction. Departments are established along with a hierarchy of authority, job assignments, and a beginning division of labour. Employees identify with the mission of the organization and spend long hours helping the organization succeed. Members feel part of a collective, and communication and control are mostly informal although a few formal systems begin to appear.
 - **Crisis – Need for delegation with control:** New management has been successful, lower-level employees gradually find themselves restricted by the strong top-down leadership. Lower-level managers begin to acquire confidence in their own functional areas and want more discretion. An autonomy crisis occurs when top managers, who were successful because of their strong leadership and vision, do not want to give up responsibility.
- **Formalization Stage:** The organization becomes more bureaucratic. It involves the installation and use of rules, procedures, and control systems. Communication is less frequent and more formal. Top management becomes concerned with issues such as strategy and planning, and leaves the operations of the firm to middle management. Product groups or other decentralized units may be formed to improve coordination.

Incentive systems based on profits may be implemented to motivate managers to work toward what is best for the overall company.

- **Crisis – Need to deal with too much red tape:** The proliferation of systems and programs may begin to strangle middle-level executives. The organization seems bureaucratized. Middle management may resent the intrusion of staff. Innovation may be restricted. The organization seems too large and complex to be managed through formal programs.
- **Elaboration Stage:** The organization becomes more flexible in its design. The solution to the red-tape crisis is a new sense of collaboration and teamwork. Social control and self-discipline reduce the need for additional formal controls. Managers learn to work within the bureaucracy without adding to it. To achieve collaboration, teams are often formed across functions or divisions of the company.
 - **Crises – Need for revitalization:** After the organization reaches maturity, it may enter periods of temporary decline. A need for renewal may occur every 10 – 20 years. The organization shifts out of alignment with the environment or perhaps becomes slow moving and over-bureaucratized and must go through a stage of streamlining and innovation. Top managers are often replaced during this period.

Eight-four percent of organizations that make it past the first year still fail within five years because they can't make the transition from the entrepreneurial stage. The transitions become even more difficult as organizations progress through future stages of the life cycle.

Organizational Characteristics During the Life Cycle

As organizations evolve through the four stages of the life cycle, changes take place in structure, control systems, innovation, and goals.

- **Entrepreneurial:** The organization is small, nonbureaucratic, and a one-person show. The top manager provides the structure and control system. Organizational energy is devoted to survival and the production of a single product or service.
- **Collectivity:** This is the organization's youth. Growth is rapid, and employees are excited and committed to the organization's mission. The structure is still mostly informal, although some procedures are emerging.
- **Formalization:** The organization is entering mid-life. Bureaucratic characteristics emerge. The organization adds staff support groups, formalizes procedures, and establishes a clear hierarchy and division of labour. At the formalization stage, organizations may also develop complementary products to offer a complete product line. Innovation may be achieved by establishing a separate innovation department. Major goals are internal stability and market expansion. Top management delegates, but it also implements formal control systems.

- **Elaboration:** The mature organization is large and bureaucratic, with extensive reward and control systems, rules, and procedures. Top managers attempt to develop a team orientation within the bureaucracy to prevent further bureaucratization. Their goal is to establish a complete organization that provides multiple product or service lines well. Innovation is institutionalized through an R&D department. Management may attack the bureaucracy and streamline it.

Growing organizations move through stages of a life cycle, and each stage is associated with specific characteristics of structure, control systems, goals, and innovation. The life-cycle phenomenon is a powerful concept used for understanding problems facing organizations and how managers can respond in a positive way to move an organization to the next stage.

Organizational Bureaucracy and Control

As organizations progress through the life cycle, they usually take on bureaucratic characteristics as they grow larger and more complex. The systematic study of bureaucracy was launched by Max Weber. Weber wanted to understand how organizations could be designed to play a positive role in the larger society.

→ What is Bureaucracy?

- In a **bureaucracy**, rules and standard procedures enable organizational activities to be performed in a predictable, routine manner.
- Specialized duties mean that each employee had a clear task to perform.
- Hierarchy of authority provides a sensible mechanism for supervision and control.
- Technical competence was the basis by which people were hired rather than friendship, family ties, and favoritism, which dramatically increased work performance.
- The separation of the position from the position holder means that individuals did not own or have an inherent right to the job, which promoted efficiency.
- Written records provided an organizational memory and continuity over time.

→ Size and Structural Control

Organization size has been described as an important variable that influences structural design and methods of control.

Formalization and Centralization

- **Formalization:** rules, procedures, and written documentation, such as policy manuals and job descriptions, that prescribe the rights and duties of employees.
- **Centralization:** level of hierarchy with authority to make decisions. In centralized organizations, decisions tend to be made at the top. In decentralized organizations, similar decisions would be made at a lower level.

Personnel Ratios

Another characteristic of bureaucracy relates to **personnel ratios** for administrative, clerical, and professional support staff. The most frequently studied ratio is the administrative ratio. Two patterns have emerged. The first is that the ratio of top administration to total employees is actually smaller in large organizations, indicating that organizations experience administrative economies as they grow larger. The second pattern concerns clerical and professional support staff ratios. These groups tend to increase in proportion to organization size. The clerical ratio increases because of the greater need for specialized skills in larger, complex organizations.

Bureaucracy in a Changing World

Weber's prediction of the triumph of bureaucracy proved accurate. Bureaucratic characteristics have many advantages and have worked extremely well for many of the needs of the industrial age. By establishing a hierarchy of authority and specific rules and procedures, bureaucracy provide an effective way to bring order to large groups of people and prevent abuses of power.

Organizing Temporary Systems for Flexibility and Innovation

How can organizations overcome the problems of bureaucracy in rapidly changing environments? One structural concept, called the **incident command system (ICS)**, is commonly used by organizations, such as police and fire departments, that have to respond rapidly to emergency or crisis situations.

The incident command system was developed to maintain the efficiency and control benefits of bureaucracy yet prevent the problem of slow response to crises. The approach is being adapted by other types of organizations to help them respond quickly to new opportunities, unforeseen competitive threats, or organizational crises.

Other Approaches to Reducing Bureaucracy

Organizations are taking a number of other, less-dramatic steps to reduce bureaucracy. Many are cutting layers of the hierarchy, keeping headquarters staff small, and giving lower-level workers greater freedom to make decisions rather than burdening them with excessive rules and regulations.

Another attack on bureaucracy is from the increasing professionalism of employees. Professionalism is defined as the length of formal training and experience of employees.

Organizational Control Strategies

Even though many organizations are trying to decrease bureaucracy and reduce rules and procedures that constrain employees, every organization needs systems for guiding and controlling the organization.

- **Bureaucratic Control:** The use of rules, policies, hierarchy of authority, written documentation, standardization, and other bureaucratic mechanisms to standardize behaviour and assess performance.

To make bureaucratic control work, managers must have the authority to maintain control over the organization. Weber argued that legitimate, rational authority granted to managers was preferred over other types of control.

- **Rational-legal Authority:** Based on employees' belief in the legality of rules and the right of those elevated to positions of authority to issue commands. Most common base of control in organizations worldwide.
 - **Traditional Authority:** Belief in traditions and in the legitimacy of the status of people exercising authority through those traditions.
 - **Charismatic Authority:** Based on devotion to the exemplary character or to the heroism of an individual person and the order defined by him or her.
- **Market Control:** Occurs when price competition is used to evaluate the output and productivity of an organization. The idea of market control originated in economics. A dollar price is an efficient form of control, because managers can compare prices and profits to evaluate the efficiency of their corporation. Top managers nearly always use the price mechanism to evaluate performance in organizations.

The use of market control requires that outputs be sufficiently explicit for a price to be assigned and for competition to exist. Without competition, the price does not accurately reflect internal efficiency.

Organizations are finding that they can apply the market control concept to internal departments such as accounting, data processing, legal, and information services.

- **Clan Control:** The use of social characteristics, such as organizational culture, shared values, commitment, traditions, and beliefs, to control behaviour. Organizations that use clan control require shared values and trust among employees. Clan control is important when ambiguity and uncertainty are high. High uncertainty means the organization cannot put a price on its services, and things change so quickly that rules and regulations are not able to specify every correct behaviour.

Under clan control, people may be hired because they are committed to the organization's purpose. Clan control is most often used in small, informal organizations or in organizations with a strong culture.

Today's companies that are trying to become learning organizations often use clan control or self-control rather than relying on rules and regulations. Self-control is similar to clan control, but whereas clan control is a function of being socialized into a group, self-control stems from the values, goals, and standard of individuals.

Organizational Decline and Downsizing

Every organization goes through periods of temporary decline. A reality in today's environment is that for some organizations, continual growth and expansion may not be possible.

→ **Definition and Causes**

Organizational decline is used to define a condition in which a substantial, absolute decrease in an organization's resource base occurs over a period. Organization decline is often associated with environmental decline in the sense that an organizational domain experiences either a reduction in size or a reduction in shape

- **Organizational Atrophy:** Atrophy occurs when organizations grow older and become inefficient and overly bureaucratized. The organization's ability to adapt to its environment deteriorates. Often, atrophy follows a long period of success, because an organization takes success for granted, becomes attached to practices and structures that worked in the past, and fails to adapt to changes in the environment. Some warning signals for organizational atrophy include excess administrative and support staff, cumbersome administrative procedures, lack of effective communication and coordination, and outdated organizational structure.
- **Vulnerability:** Reflects an organization's strategic inability to prosper in its environment. This often happens to small organizations that are not yet fully established. They are vulnerable to shifts in consumer tastes or in the economic health of the larger community. Some organizations are vulnerable because they are unable to define the correct strategy to fit the environment. Vulnerable organizations typically need to redefine their environmental domain to enter new industries or markets.
- **Environmental Decline or Competition:** Refers to reduced energy and resources available to support an organization. When the environment has less capacity to support organizations, the organization has to either scale down operations or shift to another domain. New competition increases the problem, especially for small organizations.

A Model of Decline Stages

A model of decline stages suggests that decline, if not managed properly, can move through five stages, resulting in organizational dissolution.

1. **Blinded Stage:** The first stage of decline is the internal and external change that threatens long-term survival and may require the organization to tighten up. The organization may have excess personnel, cumbersome procedures, or lack of harmony with customers. Leaders often miss the signals of decline at this point, and the solution is to develop effective scanning and control systems that indicate when something is wrong.
2. **Inaction Stage:** Denial occurs despite signs of deteriorating performance. Leaders may try to persuade employees that all is well. The solution is for leaders to acknowledge decline and take prompt action realign the organization with the environment. Leadership actions may include new problem-solving approaches, increasing decision-

making participation, and encouraging expression of dissatisfaction to learn what is wrong.

3. **Faulty Action Stage:** The organization is facing serious problems, and indicators of poor performance cannot be ignored. Failure to adjust to the declining spiral at this point can lead to organizational failure. Leaders are forced by severe circumstances to consider major changes. Actions may involve retrenchment, including downsizing personnel. Leaders should reduce employee uncertainty by clarifying values and providing information. A major mistake at this stage decreases the organization's chance for a turnaround.
4. **Crisis Stage:** The organization still has not been able to deal with decline effectively and is facing a panic. The organization may experience chaos, efforts to go back to basics, sharp changes, and anger. If managers cannot prevent a stage 4 crisis, then the only solution is major reorganization.
5. **Dissolution Stage:** This stage of decline is irreversible. The organization is suffering loss of markets and reputation, the loss of its best personnel, and capital depletion. The only available strategy is to close down the organization in an orderly fashion and reduce the separation trauma of employees.

Downsizing Implementation

When an organization is downsized, individuals are laid off permanently or are not replaced when they retire. In addition, downsizing is a part of many change initiatives in today's organizations. Re-engineering projects, mergers and acquisitions, global competition, and the trend toward outsourcing have all led to job reductions.

Nevertheless, there are times when downsizing is a necessary part of managing organizational decline. A number of techniques can help smooth the downsizing process and ease tensions for employees who leave and for those who remain.

1. **Communicate more, not less:** Some organizations seem to think the less that's said about a pending layoff, the better. Not so. Organizational managers should provide advance notice with as much information as possible. Managers should remember that it is impossible to over-communicate during turbulent times. Remaining employees need to know what is expected of them, whether future layoffs are a possibility, and what the organization is doing to help co-workers who have lost their jobs.
2. **Provide assistance to displaced workers:** The organization has a responsibility to help displaced workers cope with the loss of their jobs and get re-established in the job market. The organization can provide training, severance packages, extended benefits, and outplacement assistance. Allow employees to leave with dignity, giving them an opportunity to say goodbye to colleagues and meet with leaders to express their hurt and anger.

3. **Help the survivors cope:** Leaders should remember the emotional needs of survivors as well. Many people experience survivor guilt, anger, confusion, and sadness after the loss of colleagues, and these feelings should be acknowledged.

Chapter 5

Organizational Culture and Ethical Values

Organization Culture

Every organization has a set of values that characterize how people behave and how the organization carries out everyday business. Sometimes, these values get out of alignment with the environment and cause problems for the organization. One of the most important jobs organization leaders do is instill and support the kind of values needed for the company to thrive. Strong cultures can have a profound impact, which can be either positive or negative for the organization.

Negative cultural norms, however, can damage an organization just as powerfully as positive ones can strengthen it.

Social Capital refers to the quality of interactions among people and whether they share a common perspective. A high level of social capital enables frictionless social interactions and exchanges that help to facilitate smooth organizational functioning.

What is Culture?

Culture – Set of values, norms, guiding beliefs, and understandings that is shared by members of an organization and is taught to new members. It represents the unwritten, feeling part of the organization. It is only when organizations try to implement new strategies or programs that go against basic cultural norms and values that they come face-to-face with the power of culture.

Organizational culture exists at **two levels**. On the surface are visible artifacts and observable behaviours – the ways people dress and act, and the symbols, stories and ceremonies organization members share. The visible elements of culture, however, reflect deeper values in the minds of organization members. These underlying values, assumptions, beliefs, and thought processes are the **true culture**.

Emergence and Purpose of Culture

- Culture provides members with a sense of organizational identity and generates in them a commitment to beliefs and values that are larger than themselves.
- An organization's culture generally begins with a founder or early leader who articulates and implements particular ideas and values as a vision, philosophy, or business strategy.

- When these ideas and values lead to success, they become institutionalized, and an organizational culture emerges that reflects the vision and strategy of the founder or leader.
- Culture serve two critical function in organizations:
 - To integrate members so that they know how to relate to one another.
 - To help the organization adapt to the external environment.
- **Internal integration** means that members develop a collective identity and know how to work together effectively. It is culture that guides day-to-day working relationships and determines how people communicate within the organization, what behaviour is acceptable or not acceptable, and how power and status are allocated. **Culture is a potent force in shaping organization identity.**
- **External integration** refers to how the organization meets goals and deals with outsiders. Culture helps guide the daily activities of workers to meet certain goals. It can help the organization respond rapidly to customer needs or the moves of a competitor.
- The organization's culture also guides employee decision making in the absence of written rules or policies

Interpreting Culture

To identify and interpret culture requires that people make inferences based on observable artifacts.

- **Rites and Ceremonies:** The elaborate, planned activities that make up a special event and are often conducted for the benefit of an audience. Managers can hold rites and ceremonies to provide dramatic example of what a company values. These are special occasions that reinforce specific values, create a bond among people for sharing an important understanding, and anoint and celebrate heroes who symbolize important beliefs and activities.
Four types of rites appear in organizations. Rites of passage facilitate the transition of employees into new social roles. Rites of enhancement create stronger social identities and increase the status of employees. Rites of renewal reflect training and development activities that improve organization functioning. Rites of integration create common bonds and good feelings among employees and increase commitment to the organization.
- **Stories:** Narratives based on true events that are frequently shared among organizational employee's and told to new employees to inform them about an organization. Many stories are about company heroes who serve as **models** or ideals for serving cultural norms and values. Some stories are considered **legends** because the events are historic and may been embellished with fictional details. Other stories are **myths**, which are consistent with the values and beliefs of the organization but are not

supported by facts. Stories keep alive the primary values of the organization and provide a shared understanding among all employees.

- **Symbol:** Something that represents another thing. In one sense, ceremonies, stories, slogans, and rites are all symbols; they symbolize deeper values of an organization. Another symbol is a physical artifact of an organization. Physical symbols are powerful because they focus attention on a specific item. Symbols can also represent negative elements of an organizational culture.
- **Language:** Many organizations use a specific saying, slogan, metaphor, or other form of language to convey special meaning to employees. Slogans can be readily picked up and repeated by employees as well as customers of the company.

Recall that culture exists at two levels – the underlying values and assumptions and the visible artifacts and observable behaviours. The slogans, symbols, and ceremonies just described are artifacts that reflect underlying company values. These visible artifacts and behaviours can be used by managers to shape company values and to strengthen organization culture.

Organizational Design and Culture

Organizational culture should reinforce the strategy and structural design that the organization needs to be effective within its environment.

Culture can be assessed along many dimensions, such as the extent of collaboration versus isolation among people and departments, the importance of control and where control is concentrated, or whether the organization's time orientation is short range or long range.

Here, we will focus on two specific dimensions:

1. The extent to which the competitive environment requires flexibility or stability
2. The extent to which the organization's strategic focus and strength are internal or external.

Four categories relate to the fit among cultural values, strategy, structure, and the environment.

→ **The Adaptability Culture:** Characterized by strategic focus on the external environment through flexibility and change to meet customer needs. The culture encourages entrepreneurial values, norms, and beliefs that support the capacity of the organization to detect, interpret, and translate signals from the environment into new behaviour responses. This type of organization, however, doesn't just react quickly to environment changes – it actively creates change.

→ **The Mission Culture:** An organization concerned with serving specific customers in the external environment, but without the need for rapid change, is suited to the mission culture. The mission culture is characterized by emphasis on a clear vision of the organization's purpose and on the achievement of goals, such as sales growth, profitability, or market share, to help achieve the purpose.

→ **The Clan Culture:** Primary focus on the involvement and participation of the organization's members and on rapidly changing expectation from the external environment. In a clan culture,

an important value is taking care of employees and making sure they have whatever they need to help them be satisfied as well as productive.

→ **The Bureaucratic Culture:** Internal focus and a consistency orientation for a stable environment. This organization has a culture that supports a methodical approach to doing business. Symbols, heroes, and ceremonies support cooperation, tradition, and following established policies and practices as ways to achieve goals. Personal involvement is somewhat lower here, but that is outweighed by a high level of consistency, conformity, and collaboration among members. This organization succeeds by being highly integrated and efficient.

A Culture of Discipline

Collins identifies a number of characteristics that define truly great companies. One aspect is a culture of discipline, in which everyone in the organization is focused on doing whatever is needed to keep the company successful.

- **Level 5 leadership:** Level 5 leaders are characterized by an almost complete lack of personal ego, coupled with a strong will and ambition for the success of the organization. They develop a strong corps of leaders throughout the organization so that when they leave, the company can grow even more successful.
- **The right values:** Leaders build a culture based on values of individual freedom and responsibility, but within a framework of organizational purpose, goals, and systems. People have the autonomy to do whatever it takes – within well-defined boundaries and clear, consistent guidelines – to move the organization toward achieving its goals and vision.
- **The right people in the right jobs:** Leaders of good-to-great organizations look for self-disciplined people who embody values that fit the culture. These people are described using terms such as determined, diligent, precise, systematic, consistent, focused, accountable, and responsible.
- **Knowing where to go:** Good-to-great companies base their success on a deep understanding throughout the organization of three essential ideas, conceptualized as three intersecting circles: what they can be the best in the world at, what they are deeply passionate about, and what makes economic sense for the organization.

Culture Strength and Organizational Subcultures

Refers to the degree of agreement among members of an organization about the importance of specific values. If widespread consensus exists about the importance of those values, the culture is cohesive and strong; if little agreement exists, the culture is weak. **Subcultures** develop to reflect the common problems, goals, and experiences that members of a team, department, or other unit share. Subcultures typically include the basic values of the dominant organizational culture and additional values unique to members of the subculture.

Organizational Culture, Learning, and Performance

Culture can play an important role in creating an organizational climate that enables learning and innovative response to challenges, competitive threats, or new opportunities.

A strong culture that encourages adaptation and change enhances organizational performance by energizing and motivating employees, unifying people around shared goals and a higher mission, and shaping and guiding employee behaviour so that everyone's actions are aligned with strategic priorities.

Strong cultures that don't encourage adaptation, however, can hurt the organization. A danger for many successful organizations is that the culture becomes set and the company fails to adapt as the environment changes.

Strong adaptive cultures often incorporate the following values:

1. **The whole is more important than the parts, and boundaries between parts are minimized.** People are aware of the whole system, how everything fits together, and the relationships among various organizational parts. All members consider how their actions affect other parts and the total organization.
2. **Equality and trust are primary values.** The culture creates a sense of community and caring for one another.
3. **The culture encourages risk taking, change, and improvement.** A basic value is to question the status quo. Constant questioning of assumptions opens the gates to creativity and improvement. The culture rewards and celebrates the creators of new ideas, products, and work processes.

Adaptive organization cultures have different values and behaviour patterns than maladaptive cultures. In adaptive cultures, managers are concerned with customers and employees as well as with the internal processes and procedures that bring about useful change. In maladaptive cultures, managers are more concerned about themselves or their own special projects, and their values discourage risk taking and change.

Ethical Values and Social Responsibility

Ethical values are now considered among the most important.

→ Sources of Individual Ethical Principles:

- **Ethics** is the code of moral principles and values that governs the behaviours of a person or group with respect to what is right or wrong.
- An individual manager's values can be shaped by his or her background and experiences.
- Ethical values set standard as to what is good or bad in conduct and decision making.
- Ethics are personal and unique to each individual, although in any given group, organization or society that are many areas of consensus about what constitutes ethical behaviour.

- The laws, as well as unwritten social norms and values, shape the local environment within which each individual act, such as a person's community, family, and place of work. Individuals absorb the beliefs and values of their family, community, culture, society, religious community, and geographic environment, typically discarding some and incorporating others into their own personal ethical standards.

→ **Managerial Ethics and Social Responsibility**

Strict ethical standard is becoming part of the formal policies and informal cultures of many organizations. The **rule of law** arises from a set of codified principles and regulations that describe how people are required to act, that are generally accepted in society, and that are enforceable in the courts.

Managerial ethics are principles that guide the decisions and behaviours of managers with regard to whether they are right or wrong. The notion of **social responsibility** is an extension of this idea and refers to management's obligation to make choices and act so that the organization contributes to the welfare and interest of all organizational stakeholders, such as employees, customers, shareholders, the community, and the broader society.

An **ethical dilemma** arises in a situation concerning right or wrong in which values are in conflict. Right or wrong cannot be clearly identified in such situations.

→ **Does it pay to be good?**

The relationship of an organization's ethics and social responsibility to its performance concerns both organizational managers and organization scholars. Studies have provided varying results but generally have found that there is a small positive relationship between ethical and socially responsible behaviour and financial results.

Sources of Ethical Values in Organizations

Ethics in organizations is both an individual and an organizational matter. The standard for ethical or socially responsible conduct is embodied within each employee as well as within the organization itself. In addition, external stakeholders can influence standards of what is ethical and socially responsible.

→ **Personal Ethics:** Every individual brings a set of personal beliefs and values into the workplace. Personnel values and the moral reasoning that translates these values into behaviour are an important aspect of ethical decision making in organizations.

→ **Organization Culture:** Rarely can ethical or unethical business practices be attributed entirely to the personal ethics of a single individual. Business practices also reflect the values, attitudes, and behaviour patterns of an organization's culture. To promote ethical behaviour in the workplace, companies should make ethics an integral part of the organization's culture.

→ **External Stakeholders:** Managerial ethics and social responsibility are also influenced by a variety of external stakeholders, groups outside the organization that have a stake in the organization's performance. Ethical and socially responsible decision making recognizes that the

organization is part of a larger community and considers the impact of a decision or action on all stakeholders. Important external stakeholders are government agencies, customers, and special-interest groups such as those concerned with natural environment.

How Leaders Shape Culture and Ethics

The CEO and other top managers must be committed to specific values and demonstrate constant leadership in tending and renewing the values. Top leaders are responsible for creating and sustaining a culture that emphasizes the importance of ethical behaviour for all employees every day. Formal ethics codes and training programs are worthless if leaders do not set and live up to high standard of ethical conduct.

→ **Value-Based Leadership:** Organizational values are developed and strengthened primarily through values-based leadership, a relationship between a leader and followers that is based on shared, strongly internalized values that are advocated and acted upon by the leader.

Leaders influence cultural and ethical values by clearly articulating a vision for organizational values that employees can believe in, communicating the vision throughout the organization, and institutionalizing the vision through everyday behaviour, rituals, ceremonies, and symbols, as well as through organizational systems and policies.

Managers should remember that every statement and action have an impact on culture and values.

Value-based leaders engender a high level of trust and respect from employees, based not only on their stated values but also on the courage, determination, and self-sacrifice they demonstrate in upholding them.

Characteristics of Value-Based Leaders

- **Personal actions and expectations**
 - Holds self to high ethical standards
 - Strives for honesty, humility, integrity
 - Accepts responsibility for ethical failings
- **Fairness with others**
 - Treats everyone equitably
 - Never condescending
 - Accepts others' mistakes
- **Interpersonal behaviours**
 - Treats people with care
 - Helpful and kind
 - Supports others
 - Maintains positive relationships
- **Organizational leadership**
 - Communicates ethical vision
 - Holds people accountable
 - Puts ethics, above short-term interests

Formal Structure and Systems

- **Structure:** Managers can assign responsibility for ethical values to a specific position. This not only allocates organization time and energy to the problem but also symbolizes to everyone the importance of ethics.
Ethics committee: cross-functional group of executives who oversee company ethics. Many organizations are setting up ethics departments that manage and coordinate all corporate ethics activities. These departments are headed by a **chief ethics officer**, a high-level company executive who oversees all aspects of ethics, including establishing and broadly communicating ethical standard, setting up ethics training programs, supervising the investigation of ethical problems, and advising managers on the ethical aspects of corporate decisions. Most ethics offices have confidential ethics hotlines that employees can use to seek guidance as well as report questionable behaviour.
- **Disclosure Mechanisms:** Organizations can establish policies and procedures to support and protect whistle-blowers. **Whistle-blowing** is employee disclosure of illegal, immoral, or illegitimate practices. One value of corporate policy is to protect whistle-blowers so they will not be transferred to lower-level positions or fired because of their ethical concerns. Many whistle-blowers suffer financial and personal loss to maintain their personal ethical standards.
- **Code of Ethics:** A survey of Fortune 1000 companies found that 98 percent address issues of ethics and business conduct in formal corporate policies, and 78 percent have separate codes of ethics that are widely distributed to employees. A **code of ethics** is a formal statement of the company's values concerning ethics and social responsibility; it clarifies to employees what the company stands for and its expectation for employee conduct.
- **Training Programs:** To ensure that ethical issues are considered in daily decision making, companies can supplement a written code of ethics with employee training programs. Ethics programs also often include frameworks for ethical decision making, such as the utilitarian approach. Learning these frameworks helps managers act autonomously and still think their way through a difficult decision.

The Social Responsibility Debate

- **Social Contract:** An implied set of rights and obligations that are inherent in social policy and assumed by business. A business must comply with these guidelines established by society.
- **Moral Agent:** The obligation of a business to act honorably and to reflect and enforce values that are consistent with those of society.

The Four Levels of Social Responsibility

- **Economic** – maximizing stakeholder wealth and/or value
- **Legal** – abiding by all laws and government regulations
- **Ethical** – following standard of acceptable behavior as judged by stakeholders
- **Philanthropic** – “giving back” to society

Stakeholder Vs. Stockholder

Stockholder: An organization’s obligation is to conduct business in accordance with the desires of shareholders. “Use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.” – Milton Friedman

Stakeholder: An organization’s obligation to maximize its positive impact on stakeholders and minimize its negative impact. “In order to maximize profits in the long-run, companies need great products and services that customers want, solid relations with suppliers that keep operations on the cutting edge, inspired employees who stand for the company mission and push the company to become better, supportive communities that allow businesses to flourish” – Richard Freeman

Organizational Culture and Ethics in a Global Environment

- Organizations operating in many different areas of the world have a tough time because of the various cultural and market factors they must address. The greater complexities of the environment and organizational domain creates a great potential for ethical problems and misunderstandings.
- Organizational culture and national culture are often intertwined, and the global diversity of many of today’s companies presents a challenge to managers trying to build a strong organizational culture. Employees who come from different countries often have varied attitudes and beliefs that make it difficult to establish a sense of community and cohesiveness based on the organizational culture.
- Some companies have been successful in developing a broad global perspective that permeates the entire organization culture.
- Global ethics is also challenging today’s organizations to think more broadly. Many are using a wide variety of mechanisms to support and reinforce their ethics initiatives on a global scale. One of the most useful mechanisms for building global ethics is the **social audit**, which measures and reports the ethical, social, and environmental impact of a company’s operations.
- In the coming years, organizations will continue to evolve in their ability to work with varied cultures, combine them into a cohesive whole, live up to high social and ethical standards worldwide, and cope with the conflicts that may arise when working in a multicultural environment.