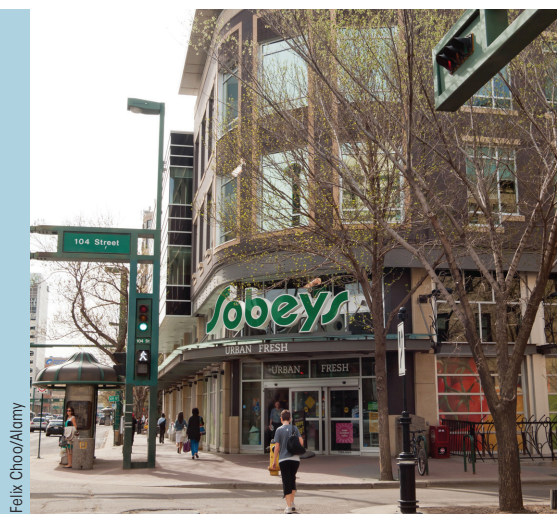


PART 3 ORGANIZING

CHAPTER

5

Organizational
Structure and
Design

Felix Choo/Alamy

LEARNING OUTCOMES

- | | |
|----------------------------------------------------------------------------------------------------------|-----|
| 5.1 Tell What are the major elements of organizational structure? | 106 |
| 5.2 Define What factors affect organizational structure? | 113 |
| 5.3 Describe Beyond traditional organizational designs, how else can organizations be structured? | 116 |

You might not have heard of Empire Company Limited, but you've probably shopped at one of their Sobeys, Safeway, or IGA grocery stores. Empire is a Canadian food-retailing and real estate company based in Stellarton, Nova Scotia, with more than \$17 billion in annual sales and more than 124 000 employees. Sobeys has been serving Canadians for over 100 years, and one of the secrets to its competitive success is the synergy that comes from owning its own retail real estate. With a lofty goal of being recognized as the best food retailer and workplace environment in Canada, Empire has moved away from a regional management structure in order to reduce complexity and eliminate duplication.

The company streamlined its organizational structure to reflect its transition to an operationally focused grocery retailer with related real estate interests on the heels of an October 2013 announcement appointing Marc Poulin as CEO of both Empire Company Ltd. and Sobeys Inc.¹

For Empire to be successful, the management structure requires simplicity and clarity. What kind of organizational structure can support the operations of retail stores and real estate assets? The CEO has a great deal of flexibility in determining some parts of the structure and less flexibility in determining others. As a business with significant family ownership, Empire has been able to pursue a long-term growth strategy rather than focusing on short-term financial results. Empire continues to expand, adding gas stations from Shell Canada in 2014.

In this chapter, we present information about designing appropriate organizational structures. We look at the various elements of organizational structure and the factors that influence their design. We also look at some traditional and contemporary organizational designs, as well as organizational design challenges that today's managers face.

Think About It

How do you run retail stores and invest in real estate ventures? Put yourself in CEO Marc Poulin's shoes. How can you continue to make Empire successful? What organizational structure will best ensure Empire's goals?

5.1 Tell What are the major elements of organizational structure?

DEFINING ORGANIZATIONAL STRUCTURE

No other topic in management has undergone as much change in the past few years as that of organizing and organizational structure. Managers are questioning and re-evaluating traditional approaches to organizing work in their search for organizational structures that can achieve efficiency but also have the flexibility necessary for success in today's dynamic environment. Recall from Chapter 1 that **organizing** is defined as the process of creating an organization's structure. That process is important and serves many purposes (see Exhibit 5-1). The challenge for managers is to design an organizational structure that allows employees to work effectively and efficiently.

Just what is **organizational structure**? It is how job tasks are formally divided, grouped, and coordinated within an organization. When managers develop or change the structure, they are engaged in **organizational design**, a process that involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization.²

Work Specialization

Adam Smith first identified division of labour and concluded that it contributed to increased employee productivity. Early in the twentieth century, Henry Ford applied this concept in an assembly line, where every Ford employee was assigned a specific, repetitive task.

Today we use the term **work specialization** to describe the degree to which tasks in an organization are subdivided into separate jobs. The essence of work specialization is that an entire job is not done by one individual but instead is broken down into steps, and each step is completed by a different person. Individual employees specialize in doing part of an activity rather than the entire activity. When work specialization was implemented in the early twentieth century, employee productivity rose initially, but when used to extreme, human diseconomies from work specialization—boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover—more than offset the economic advantages. Most managers today see work specialization as an important organizing mechanism but not as a source of ever-increasing productivity. McDonald's uses high work specialization to efficiently make and sell its products, and employees have precisely defined roles and standardized work processes. However, other organizations, such as Bolton, Ontario-based Husky Injection Molding Systems and Ford Australia, have successfully increased job breadth and reduced work specialization. Still, specialization has its place in some organizations. No hockey team has anyone play both goalie and centre positions. Rather, players tend to specialize in their positions.



EXHIBIT 5-1 Purposes of Organizing

- Divides work to be done into specific jobs and departments
- Assigns tasks and responsibilities associated with individual jobs
- Coordinates diverse organizational tasks
- Clusters jobs into units
- Establishes relationships among individuals, groups, and departments
- Establishes formal lines of authority
- Allocates and deploys organizational resources

organizing

A management function that involves determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made.

organizational structure

How job tasks are formally divided, grouped, and coordinated within an organization.

organizational design

The process of developing or changing an organization's structure.

work specialization

The degree to which tasks in an organization are subdivided into separate jobs; also known as division of labour.

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Departmentalization

Does your college or university have an office of student affairs? A financial aid or student housing department? Once jobs have been divided up through work specialization, they have to be grouped back together so that common tasks can be coordinated. The basis on which jobs are grouped together is called **departmentalization**. Every organization will have its own specific way of classifying and grouping work activities. Exhibit 5-2 shows the five common forms of departmentalization.

Functional departmentalization groups jobs by functions performed. This approach can be used in all types of organizations, although the functions change to reflect the organization's purpose and work. **Product departmentalization** groups jobs by product line. In this approach, each major product area is placed under the authority of a manager who is responsible for everything having to do with that product line. For example, Estée Lauder sells lipstick, eyeshadow, blush, and a variety of other cosmetics represented by different product lines. The company's lines include Clinique and Origins, in addition to Canadian-created MAC Cosmetics and its own original line of Estée Lauder products, each of which operates as a distinct company.

Geographical departmentalization groups jobs on the basis of territory or geography, such as the East Coast, Western Canada, or Central Ontario, or maybe by US, European, Latin American, and Asia-Pacific regions. **Process departmentalization** groups jobs on the basis of product or customer flow. In this approach, work activities follow a natural processing flow of products or even of customers. For example, many beauty salons have separate employees for shampooing, colouring, and cutting hair, all different processes for having one's hair styled. Finally, **customer departmentalization** groups jobs on the basis of customers who have common needs or problems that can best be met by having specialists for each. There are advantages to matching departmentalization to customer needs.

Large organizations often combine forms of departmentalization. For example, a major Canadian photonics firm organizes each of its divisions along functional lines: its manufacturing units around processes, its sales units around seven geographic regions, and its sales regions into four customer groupings. Two popular trends in departmentalization are the use of customer departmentalization and the use of cross-functional teams. Toronto-based Dell Canada is organized around four customer-oriented business units: home and home office; small business; medium and large business; and government, education, and health care. Customer-oriented structures enable companies to better understand their customers and to respond faster to their needs.

Managers use **cross-functional teams**—teams made up of groups of individuals who are experts in various specialties and who work together—to increase knowledge and understanding for some organizational tasks. Scarborough, Ontario-based Aviva Canada, a leading property and casualty insurance group, puts together cross-functional catastrophe teams, with trained representatives from all relevant departments, to more quickly help policyholders when a crisis occurs. During the BC wildfires of summer 2003, the catastrophe team worked on both local and corporate issues, including managing information technology, internal and external communication, tracking, resourcing, and vendors. This type of organization made it easier to meet the needs of policyholders as quickly as possible.³ We discuss the use of cross-functional teams more fully in Chapter 10.



qstockmedia/Fotolia



Sergey Nivens/Fotolia



Dick Hemingway

Burnaby, British Columbia-based TELUS is structured around four customer-oriented business units to improve customer response times: consumer solutions (focused on services to homes and individuals); business solutions (focused on services to small and medium-sized businesses and entrepreneurs); TELUS Québec (a TELUS company focused on services for the Quebec marketplace); and partner solutions (focused on services to wholesale customers, such as telecommunications carriers and wireless communications companies).

departmentalization

The basis on which jobs are grouped together.

functional departmentalization

Grouping jobs by functions performed.

product departmentalization

Grouping jobs by product line.

geographical departmentalization

Grouping jobs on the basis of territory or geography.

process departmentalization

Grouping jobs on the basis of product or customer flow.

customer departmentalization

Grouping jobs on the basis of customers who have common needs or problems.

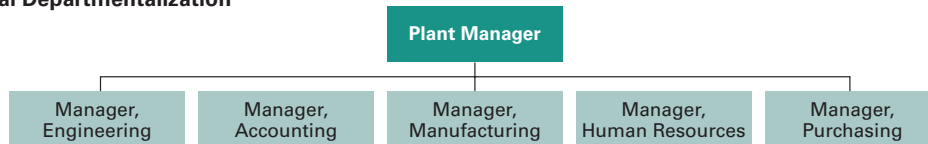
cross-functional teams

Work teams made up of individuals who are experts in various functional specialties.

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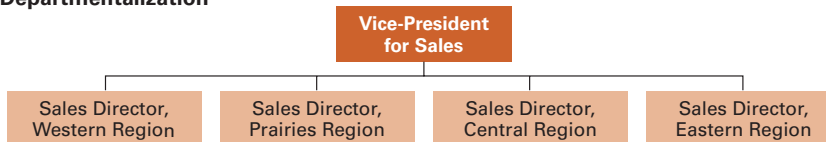
EXHIBIT 5-2 The Five Common Forms of Departmentalization

Functional Departmentalization



- + Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
- + Coordination within functional area
- + In-depth specialization
- Poor communication across functional areas
- Limited view of organizational goals

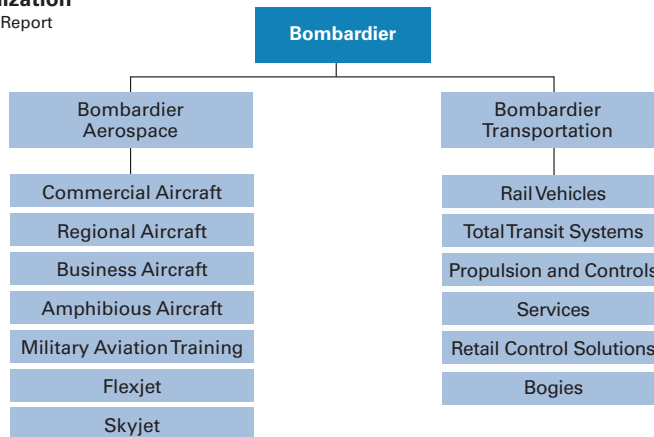
Geographical Departmentalization



- + More effective and efficient handling of specific regional issues that arise
- + Better service of needs of unique geographic markets
- Duplication of functions
- Feelings of isolation from other organizational areas possible

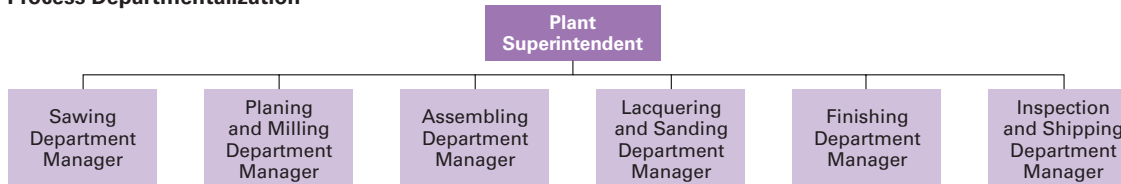
Product Departmentalization

Source: Bombardier Annual Report



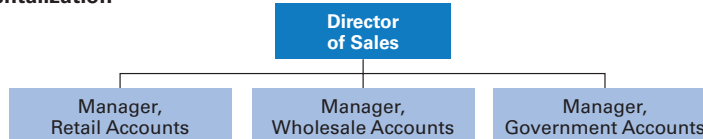
- + Specialization in particular products and services possible
- + Managers able to become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

Process Departmentalization



- + More efficient flow of work activities
- Use possible only with certain types of products

Customer Departmentalization



- + Specialists able to meet customers' needs and problems
- Duplication of functions
- Limited view of organizational goals

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Chain of Command

The **chain of command** is the continuous line of authority that extends from upper organizational levels to the lowest levels and clarifies who reports to whom. It helps employees answer questions such as “Who do I go to if I have a problem?” or “To whom am I responsible?”

You cannot discuss the chain of command without discussing these other concepts: authority, responsibility, accountability, unity of command, and delegation. **Authority** refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it.⁴ To facilitate decision making and coordination, an organization’s managers are part of the chain of command and are granted a certain degree of authority to meet their responsibilities.

As managers coordinate and integrate the work of employees, those employees assume an obligation to perform any assigned duties. This obligation or expectation to perform is known as **responsibility**. Responsibility brings with it **accountability**, which is the need to report and justify work to a manager’s superiors. Sobeys maintains an environmental scorecard where it tracks its performance on environmental pledges such as reducing greenhouse gas emissions by 15 percent, reducing landfill waste by 30 percent, and selling only sustainable seafood products.

The **unity of command** principle helps preserve the concept of a continuous line of authority. It states that every employee should receive orders from only one superior. Without unity of command, conflicting demands and priorities from multiple managers can create problems.

Because managers have limited time and knowledge, they may delegate some of their responsibilities to other employees. **Delegation** is the assignment of authority to another person to carry out specific duties, allowing the employee to make some of the decisions. Delegation is an important part of a manager’s job, as it can ensure that the right people are part of the decision-making process. *Hey, You’re the Boss Now—Delegating 101* gives more tips on how to do a better job of delegating. These concepts are far less important today. For example, at the Michelin plant in Tours, France, managers have replaced the top-down chain of command with “birdhouse” meetings, in which employees meet for five minutes at regular intervals throughout the day at a column on the shop floor to study simple tables and charts to identify production bottlenecks. Instead of being bosses, shop managers are enablers.⁵ In addition, information technology has provided employees with immediate access to information instead of waiting to hear from someone higher up in the chain of command.

LINE AND STAFF AUTHORITY In many organizations, a distinction can be made between line and staff authority. **Line managers** are responsible for the essential activities of the organization, including production and sales. Line managers have the authority to issue orders to those in the chain of command. The president, the production manager, and the sales manager are examples of line managers. **Staff managers** work in the supporting activities of the organizations, such as human resources or accounting. Staff managers have advisory authority and cannot issue orders to those in the chain of command (except those in their own department). The vice-president of

chain of command

The continuous line of authority that extends from the top of the organization to the lowest level and clarifies who reports to whom.

authority

The rights inherent in a managerial position to tell people what to do and to expect them to do it.

responsibility

The obligation or expectation to perform any assigned duties.

accountability

The need to report and justify work to a manager’s superiors.

unity of command

The management principle that states every employee should receive orders from only one superior.

delegation

The assignment of authority to another person to carry out specific duties, allowing the employee to make some of the decisions.

line managers

Managers responsible for the essential activities of the organization, including production and sales.

staff managers

Managers who work in the supporting activities of the organizations (such as human resources or accounting).

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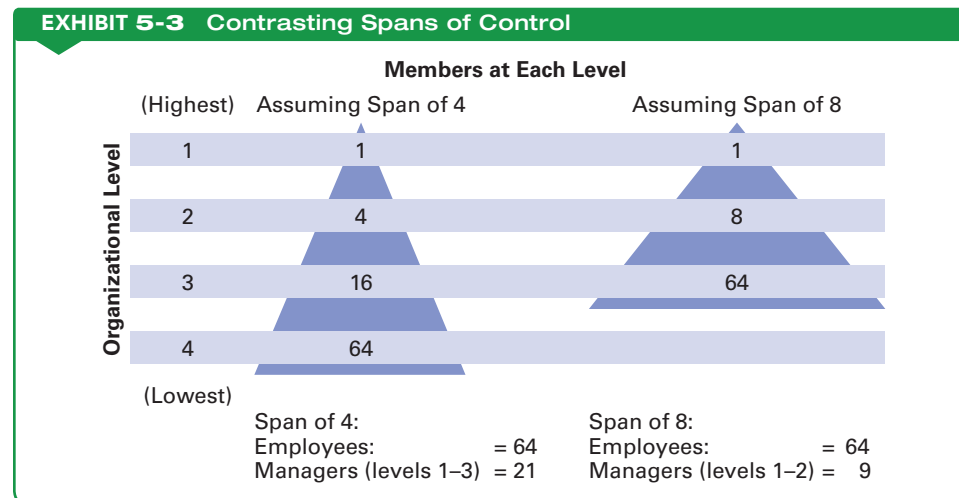
accounting, the human resources manager, and the marketing research manager are examples of staff managers. Matthew Malek, Manager of Talent Management and Organizational Development at Empire Company Limited, may have recommendations about potential real estate opportunities, but CEO Marc Poulin is likely more interested in Malek’s advice about managing employees.

Span of Control

How many employees can a manager efficiently and effectively manage? This question of **span of control** is important because, to a large degree, it determines the number of levels and managers an organization needs. All things being equal, the wider or larger the span, the more efficient the organization. An example can show why.

Assume that we have two organizations, both of which have 64 employees. As Exhibit 5-3 shows, if one organization has a uniform span of four and the other a span of eight, the wider span will have one fewer level and approximately 12 fewer managers. If the average manager made \$50 000 a year, the organization with the wider span would save more than \$600 000 a year in management salaries alone. Obviously, wider spans are more efficient in terms of cost. However, at some point, wider spans reduce *effectiveness*. When the span becomes too large, employee performance can suffer because managers may no longer have the time to provide the necessary leadership and support. The top performing manufacturing plants have up to 40 production workers per supervisor.⁶ In a large call centre, that number can be as high as 50 customer service representatives per supervisor.

TODAY’S VIEW The contemporary view of span of control recognizes that many factors influence the appropriate number of employees a manager can efficiently *and* effectively manage. These factors include the skills and abilities of the manager and the employees, and the characteristics of the work being done. For example, the more training and experience employees have, the less direct supervision they need. Therefore, managers with well-trained and experienced employees can function quite well with a wider span. Other contingency variables that determine the appropriate span include similarity of employee tasks, the complexity of those tasks, the physical proximity of subordinates, the degree to which standardized procedures are in place, the sophistication of the organization’s information system,



span of control
The number of employees a manager can efficiently and effectively manage.

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the strength of the organization's culture, and the preferred style of the manager.⁷ Wider spans of control are also possible due to technology—it is easier for managers and their subordinates to communicate with each other, and there is often more information readily available to help employees perform their jobs.

The trend in recent years has been toward larger spans of control, which are consistent with managers' efforts to reduce costs, speed up decision making, increase flexibility, get closer to customers, and empower employees. However, to ensure that performance does not suffer because of these wider spans, organizations are investing heavily in employee training. Managers recognize that they can handle a wider span when employees know their jobs well or can turn to coworkers if they have questions.

Centralization and Decentralization

In some organizations, top managers make all the decisions and lower-level managers and employees simply carry out their orders. At the other extreme are organizations in which decision making is pushed down to the managers who are closest to the action. The former organizations are centralized, and the latter are decentralized.

Centralization describes the degree to which decision making is concentrated at a single point in the organization. If top managers make the organization's key decisions with little or no input from below, then the organization is centralized. In contrast, the more that lower-level employees provide input or actually make decisions, the more **decentralization** there is. Keep in mind that the concept of centralization/decentralization is relative, not absolute—an organization is never completely centralized or decentralized. Few organizations could function effectively if all decisions were made by only a select group of top managers; nor could they function if all decisions were delegated to employees at the lowest levels. Nestlé uses decentralized marketing with centralized production, logistics, and supply chain management.⁸

TODAY'S VIEW Most organizations start with a centralized model, where a founder makes all the decisions. As the businesses grow and diversify their environments become complex. These businesses need to become more flexible and responsive, resulting in decentralized decision making. In large companies especially, lower-level managers are “closer to the action” and typically have more detailed knowledge about problems and how best to solve them than do top managers. For example, the Bank of Montreal's some 1000 branches are organized into “communities”—a group of branches within a limited geographical area. Each community is led by a community area manager, who typically works within a 20-minute drive of the other branches. This area manager can respond faster and more intelligently to problems in his or her community than could a senior executive in Toronto.

Another term for increased decentralization is **employee empowerment**, which means giving more decision-making authority to employees.



picstveFotolia

Kingsey Falls, Quebec-based Cascades, a leading manufacturer of packaging products and tissue paper, uses decentralization effectively with more than 100 operating units located in Canada, the United States, and Europe.⁹ Companies are treated as separate entities, based on product, and operate like a federation of small and medium-sized businesses. Each mill is accountable for its own bottom line, and employees are motivated through profit sharing in the profits generated by their own mill. The emphasis on decentralized, entrepreneurial management has been copied by other Canadian forest products companies, such as Domtar.

centralization

The degree to which decision making is concentrated at a single point in the organization.

decentralization

The degree to which lower-level employees provide input or actually make decisions.

employee empowerment

Giving more authority to employees to make decisions.

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What determines whether an organization will move toward more centralization or decentralization? Companies facing dynamic environments are more likely to need to adapt quickly to change, and thus decentralize decision making. Stable environments allow for more rules and procedures, so decision making can be centralized more easily. A community college with one location is more likely to be centralized, while a college in a major metropolitan area with five campuses might treat each of the campuses as a separate unit and decentralize decision making to support a more complex environment.

Formalization

Formalization refers to the degree to which jobs within the organization are standardized and the extent to which employee behaviour is guided by rules and procedures. If a job is highly formalized, the person doing that job has little freedom to choose what is to be done, when it is to be done, and how he or she does it. Employees can be expected to handle the same input in exactly the same way, resulting in consistent and uniform output. Organizations with high formalization have explicit job descriptions, numerous organizational rules, and clearly defined procedures covering work processes. On the other hand, where formalization is low, job behaviours are relatively unstructured, and employees have a great deal of freedom in how they do their work.

The degree of formalization varies widely among organizations and even within organizations. For example, at a newspaper, news reporters often have a great deal of discretion in their jobs. They may pick their news topics, find their own stories, research them the way they want to, and write them up, usually within minimal guidelines. In contrast, employees who lay out the newspaper pages do not have that type of freedom. They have constraints—both time and space—that standardize how they do their work.

TODAY'S VIEW Although some formalization is important and necessary for consistency and control, many of today's organizations seem to be less reliant on strict rules and standardization to guide and regulate employee behaviour. Consider the following situation:

It is 2:37 p.m. and a customer at a watch repair store is trying to drop off a watch for same-day repair. Store policy states that items must be dropped off by 2:00 p.m. for this service. The clerk knows that rules like this are supposed to be followed. At the same time, he wants to accommodate the customer, and he knows that the watch could, in fact, be repaired that day. He decides to accept the watch and, by so doing, to violate the policy. He just hopes that his manager does not find out.¹⁰

Has this employee done something wrong? He did “break” the rule. But by breaking the rule, he actually brought in revenue and provided the customer good service—so good, in fact, that the customer may be satisfied enough to come back in the future.

Because such situations where rules may be too restrictive frequently arise, many organizations allow employees some freedom to make decisions they feel are best under the circumstances. However, this freedom does not mean that all organizational rules are thrown out the window. There *will* be rules that are important for employees to follow, and these rules should be explained so employees understand the importance of adhering to them. But for other rules, employees may be given some leeway in application.¹¹

formalization

The degree to which jobs within the organization are standardized and the extent to which employee behaviour is guided by rules and procedures.

What Contingency Variables Affect Structural Choice?

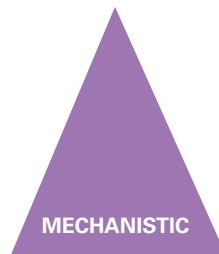
5.2 Define What factors affect organizational structure?



John Cogill/AP Images

Identify the contingency factors that favour either the mechanistic model or the organic model of organizational design.

IF these are the contingency factors,
THEN this is the most appropriate structure.



- Rigid hierarchical relationships
- Fixed duties
- Many rules
- Formalized communication channels
- Centralized decision authority
- Taller structures

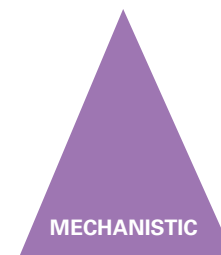
- Collaboration (both vertical and horizontal)
- Adaptable duties
- Few rules
- Informal communication
- Decentralized decision authority
- Flatter structures

EXHIBIT 5-4
Mechanistic Versus
Organic Organizations

Mechanistic or Organic¹²

Mechanistic organization (or bureaucracy)

- Rigid and tightly controlled structure
- Combines traditional aspects of all six elements or organizational structure:
 - High specialization
 - Rigid departmentalization
 - Clear chain of command
 - Narrow spans of control leading to taller structure
 - Centralization
 - High formalization



Organic organization

- Highly adaptive and flexible structure
 - Collaboration (both vertical and horizontal)
 - Adaptable duties
 - Few rules
 - Informal communication
 - Decentralized decision authority
 - Wider spans of control leading to flatter structures
- Loose structure allows for rapid adjustment to change¹³



The "If": Contingency Variables

1 Strategy—Structure

- Based on work of Alfred Chandler¹⁴
- Goals are important part of organization's strategies; structure should facilitate goal achievement
- Simple strategy → simple structure
- Elaborate strategy → more complex structure
- Certain structural designs work best with different organizational strategies¹⁵
 - Passionate pursuit of innovation → organic
 - Passionate pursuit of cost control → mechanistic



Photo: K/fotolia

mechanistic organization

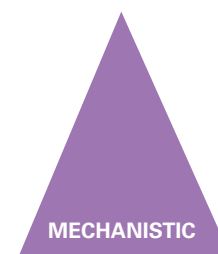
An organization that is rigid and tightly controlled.

organic organization

An organization that is highly adaptive and flexible.

2 Size—Structure

- Considerable evidence that size (number of employees) affects structure¹⁶
- Magic number seems to be 2000 employees
- **LARGE** organizations (>2000 employees)—mechanistic
- When an organization reaches this number, size is *less influential*; adding more employees has little impact as structure is already fairly mechanistic



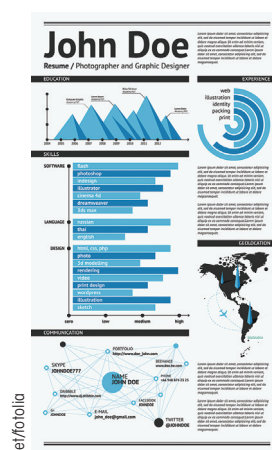
Adding a significant number of new employees to a **smaller organization that has a more organic structure** will force it to become more mechanistic

3 Technology—Structure

- Technology is used—by every organization—to convert inputs into outputs (see Exhibit 5-5)

EXHIBIT 5-5 Woodward’s Findings on Technology and Structure

	UNIT PRODUCTION	MASS PRODUCTION	PROCESS PRODUCTION
Structural characteristics:	Low vertical differentiation Low horizontal differentiation Low formalization	Moderate vertical differentiation High horizontal differentiation High formalization	High vertical differentiation Low horizontal differentiation Low formalization
Most effective structure:	Organic	Mechanistic	Organic



4 Environment—Structure

- Environment is a constraint on managerial discretion
- Environment also has a major effect on an organization’s structure
 - Stable environment: mechanistic structure
 - Dynamic/uncertain environment: organic structure
 - Helps explain why so many managers today have restructured their organizations to be lean, fast, and flexible¹⁷

5.3 Describe Beyond traditional organizational designs, how else can organizations be structured?

COMMON ORGANIZATIONAL DESIGNS

What types of organizational designs exist in small businesses or in big companies such as Ford Canada, Corel, McCain Foods, Procter & Gamble, and eBay? When making organizational design decisions, managers can choose from traditional organizational designs and contemporary organizational designs.

Traditional Organizational Designs

In designing a structure to support the efficient and effective accomplishment of organizational goals, managers may choose to follow more traditional organizational designs. These designs—the simple structure, functional structure, and divisional structure—tend to be more mechanistic. Exhibit 5-6 summarizes the strengths and weaknesses of each design.

SIMPLE STRUCTURE Most organizations start as entrepreneurial ventures with a simple structure consisting of owners and employees. A **simple structure** is an organizational structure with low departmentalization, wide spans of control, authority centralized in a single person, and little formalization.¹⁸ This structure is most commonly used by small businesses in which the owner and manager are one and the same.

Most organizations do not remain simple structures. As an organization grows, it generally reaches a point where it has to add employees. As the number of employees rises, the structure tends to become more specialized and formalized. Rules and regulations are introduced, work becomes specialized, departments are created, levels of management are added, and the organization becomes increasingly bureaucratic. At this point, a manager might choose to organize around a functional structure or a divisional structure.

FUNCTIONAL STRUCTURE A **functional structure** is an organizational structure that groups similar or related occupational specialties together. It is the functional approach to departmentalization applied to the entire organization. Revlon, for example, is organized around the functions of operations, finance, human resources, and product research and development.

DIVISIONAL STRUCTURE The **divisional structure** is an organizational structure that consists of separate business units or divisions.¹⁹ In this structure, each unit or division has

EXHIBIT 5-6 Strengths and Weaknesses of Common Traditional Organizational Designs

Structure	Strengths	Weaknesses
Simple Structure	Fast; flexible; inexpensive to maintain; clear accountability	Not appropriate as organization grows; reliance on one person is risky
Functional Structure	Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment), and employees are grouped with others who have similar tasks	Pursuit of functional goals can cause managers to lose sight of what is best for the overall organization; functional specialists become insulated and have little understanding of what other units are doing
Divisional Structure	Focuses on results—division managers are responsible for what happens to their products and services	Duplication of activities and resources increases costs and reduces efficiency

simple structure

An organizational structure with low departmentalization, wide spans of control, authority centralized in a single person, and little formalization.

functional structure

An organizational structure that groups similar or related occupational specialties together.

divisional structure

An organizational structure that consists of separate business units or divisions.

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relatively limited autonomy, with a division manager responsible for performance who has strategic and operational authority over his or her unit. In divisional structures, however, the parent corporation typically acts as an external overseer to coordinate and control the various divisions, and often provides support services such as financial and legal. For example, Maple Leaf Sports & Entertainment has three divisions, including two sports teams, the Raptors and the Maple Leafs.

Contemporary Organizational Designs

Managers in contemporary organizations often find that traditional hierarchical designs are not appropriate for the increasingly dynamic and complex environments they face. In response to marketplace demands to be lean, flexible, and innovative, managers are developing creative ways to structure and organize work and to make their organizations more responsive to the needs of customers, employees, and other organizational constituents.²⁰ At the Canada Revenue Agency, the workforce is spread out, and employees rely on shared workspaces, mobile computing, and virtual private networks to get work done. Nevertheless, work gets done effectively and efficiently.²¹ Exhibit 5-7 summarizes some of the newest concepts in organizational designs.

TEAM STRUCTURE Larry Page and Sergey Brin, cofounders of Google, have created a corporate structure that “tackles most big projects in small, tightly focused teams.”²² In a **team structure**, the entire organization is made up of work groups or teams that perform the organization’s work.²³ Employee empowerment is crucial in a team structure, because there is no line of managerial authority from top to bottom. Rather, employee teams are free to design work in the way they think is best. However, the teams are also held responsible for all work and performance results in their respective areas. Let us look at some examples of organizations that are organized around teams.

EXHIBIT 5-7 Contemporary Organizational Designs

Structure	Description	Advantages	Disadvantages
Team	A structure in which the entire organization is made up of work groups or teams.	Employees are more involved and empowered. Reduced barriers among functional areas.	No clear chain of command. Pressure on teams to perform.
Matrix–Project	Matrix is a structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.	Fluid and flexible design that can respond to environmental changes. Faster decision making.	Complexity of assigning people to projects. Task and personality conflicts.
Boundaryless	A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes <i>virtual</i> and <i>networked</i> types of organizations.	Highly flexible and responsive. Draws on talent wherever it is found.	Lack of control. Communication difficulties.

team structure

An organizational structure in which the entire organization is made up of work groups or teams.

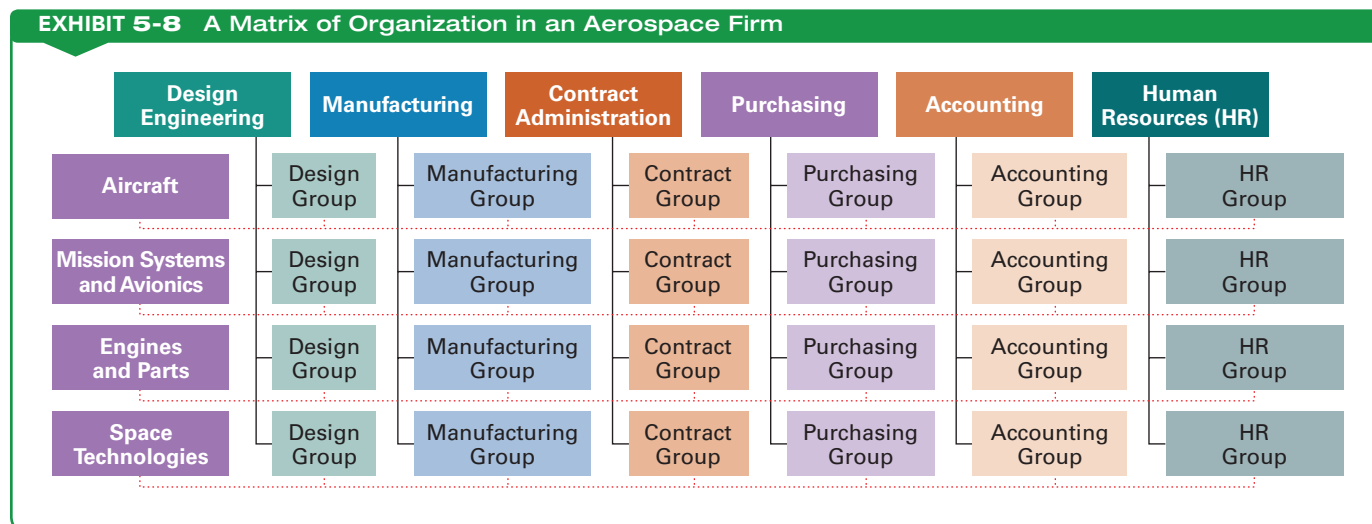
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Whole Foods Market, the largest natural-foods grocer in the United States, now has nine stores in Ontario and British Columbia. Each Whole Foods store is an autonomous profit centre composed of an average of 10 self-managed teams, each with a designated team leader. The team leaders in each store are a team; store leaders in each region are a team; and the company’s six regional presidents are a team.²⁴ At the Sun Life Assurance Company of Canada (US) office in Wellesley Hills, Massachusetts, customer representatives work in eight-person teams trained to expedite all customer requests. When customers call in, they are not switched from one specialist to another, but to one of the teams, who takes care of every aspect of the customer’s request. Together, team members work to make resolving insurance difficulties go much smoother.

In large organizations, the team structure complements what is typically a functional or divisional structure. This structural addition enables the organization to have the efficiency of a bureaucracy while providing the flexibility that teams provide. To improve productivity at the operating level, for example, Toyota’s CAPTIN plant (based in Delta, British Columbia), Motorola, and Xerox use self-managed teams extensively.²⁵

MATRIX AND PROJECT STRUCTURES Other popular contemporary designs are the matrix and project structures. The **matrix structure** is an organizational structure that assigns specialists from different functional departments to work on one or more projects led by project managers. Once a project is completed, the specialists return to their functional departments. Exhibit 5-8 shows an example of the matrix structure used in an aerospace firm. Along the top are the familiar organizational functions. The specific projects the firm is currently working on are listed along the left-hand side: aircraft, mission systems and avionics, engines and parts, and space technologies. Each project is managed by an individual who staffs his or her project with people from each of the functional departments. Adding this vertical dimension to the traditional horizontal functional departments in effect “weaves together” elements of functional and product departmentalization, creating a matrix arrangement. Another unique aspect of this design is that it creates a *dual chain of command*, which explicitly violates the classical organizing principle of unity of command.

How does a matrix structure work in reality? Employees in a matrix organization have two managers: their functional department manager and their product or project



matrix structure

An organizational structure that assigns specialists from different functional departments to work on one or more projects.

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manager, who share authority. The project managers have authority over the functional members who are part of their project team in areas relative to the project's goals. However, decisions such as promotions, salary recommendations, and annual reviews remain the functional manager's responsibility. To work effectively, project and functional managers have to communicate regularly, coordinate work demands on employees, and resolve conflicts together.

Although the matrix structure continues to be an effective organizational structure choice for some organizations, many are using a **project structure**, in which employees continuously work on projects. Unlike the matrix structure, a project structure has no formal departments that employees return to at the completion of a project. Instead, employees take their specific skills, abilities, and experiences to other projects. All work in project-structured organizations is performed by teams of employees who become part of a project team because they have the appropriate work skills and abilities.

Project structures tend to be fluid and flexible organizational designs. This type of structure has no departmentalization or rigid organizational hierarchy to slow down decision making or taking action. Managers act as facilitators, mentors, and coaches. They “serve” the project teams by eliminating or minimizing organizational obstacles and by ensuring that the teams have the resources they need to effectively and efficiently complete their work.

BOUNDARYLESS ORGANIZATIONS Another approach to contemporary organizational design is the **boundaryless organization**, an organization whose design is not determined by a predefined structure. Instead the organization seeks to eliminate the chain of command, places no limits on spans of control, and replaces departments with empowered teams.²⁷ The term *boundaryless organization* was coined by Jack Welch, former chair of General Electric (GE), who wanted to eliminate vertical and horizontal boundaries within GE and break down external barriers between the company and its customers and suppliers. This idea may sound odd, but many successful organizations are finding they can operate more effectively in today's environment by remaining flexible and *unstructured*: The ideal structure for them is *not* having a rigid, predefined structure. Instead, the boundaryless organization seeks to eliminate the chain of command, to have limitless spans of control, and to replace departments with empowered teams.²⁸

What do we mean by “boundaries”? A typical organization has internal boundaries—horizontal boundaries imposed by work specialization and departmentalization, and vertical boundaries created by separating employees into organizational levels and hierarchies. The organization also has external boundaries, which separate the organization from its customers, suppliers, and other stakeholders. To minimize or eliminate these boundaries, managers might use virtual or network organizational structures.

How does a boundaryless organization operate in practice? General Electric is made up of a number of companies, including GE Money, which provides financial services to consumers and retailers; GE Water & Process Technologies, which produces water treatment, wastewater treatment, and process systems products; GE Energy, which supplies technology to the energy industry; and NBC Universal Studios, a leading media and entertainment company. Anyone working in any division of GE can learn about opportunities available in the other business units and how to move into those units, if so desired. Mobility is one way a boundaryless organization functions for its employees. Outside the company, the boundaryless structure allows GE customers to ask factories to increase inventory when the customer needs more product. Thus, the customer makes a decision about inventory that was once made inside the organization. GE also encourages customers and suppliers to evaluate its service levels, giving direct and immediate feedback to employees.



Echo/Getty Images

Oticon A/S, a Danish hearing-aid manufacturer, has no departments or employee job titles. All work is project based, and project teams form, disband, and form again as the work requires. Employees “join” project teams because they bring needed skills and abilities to that project. Once the project is completed, they move on to the next one.²⁶



Sergey Nivens/Fotolia

project structure

An organizational structure in which employees continuously work on projects.

boundaryless organization

An organization that is not defined by a chain of command, places no limits on spans of control,

and replaces departments with empowered teams.

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Syda Productions/Fotolia

New Westminster, British Columbia-based iGEN Knowledge Solutions uses its virtual form to bring technical solutions to its business clients. iGEN associates work from home offices connected by wireless technologies to solve client problems collaboratively. This structure allows faster idea implementation, product development, and service delivery. The company finds it easy to set up operations in different regions of the country without large overhead costs because of its virtual structure.

VIRTUAL ORGANIZATIONS A **virtual organization** has elements of a traditional organization, but also relies on recent developments in information technology to get work done.²⁹ Thus, the organization could consist of a small core of full-time employees plus outside specialists hired on a temporary basis to work on opportunities that arise.³⁰ The virtual organization could also be composed of employees who work from their own home offices—connected by technology but perhaps occasionally getting together face to face. An example of a virtual organization is Strawberry Frog, an international advertising agency based in Amsterdam. The small administrative staff accesses a network of more than 100 people around the globe to complete advertising projects. By relying on this global web of freelancers, the company enjoys a network of talent without the overhead and structural complexity of a more traditional organization.

The inspiration for virtual organizations comes from the film industry. If you look at the film industry, people are essentially “free agents” who move from project to project applying their skills—directing, talent search, costuming, makeup, set design—as needed.

Some organizations are now testing out a new form of virtuality, using the virtual online world *Second Life* to create a different type of organization. Vancouver-based Davis LLP is the first Canadian law firm to have a presence in *Second Life*.³¹ Lawyer Dani Lemon, whose online avatar (the digital version of a real person) is Lemon Darcy, said that “the online world gives [Davis LLP] an opportunity to interact with clients and meet new ones who are comfortable in that setting.”

Lemon believes that being part of *Second Life* will bring new clients to Davis and give the company an opportunity to communicate in new ways. Several of her colleagues have joined her in this virtual office, including Sarah Dale-Harris (Barrister/Solicitor Underwood), Pablo Guzman (PabloGuzman Little), Chris Bennett (IPand Teichmann), David Spratley (DaveS Blackadder), and Chris Metcalfe (IP Maximus).

Davis LLP’s *Second City* office has a boardroom off the lobby that can be used for online conferences, a room containing recruiting information from Davis, and a library that will house online legal information. “I think it will be an evolving process,” Lemon said of the online office. “We will use it as a networking tool and as a way to meet clients.”³² The law firm plans to hold online events in *Second Life*, conduct seminars, and give talks that might be of value to potential clients.



vichie87/Fotolia

Companies such as Cisco Systems, Nike, Ericsson, Reebok, and Mitel have found that they can do business worth hundreds of millions of dollars without owning manufacturing facilities. San Jose, California-based Cisco Systems is essentially a research and development company that uses outside suppliers and independent manufacturers to assemble the Internet routers its engineers design. Similarly, Beaverton, Oregon-based Nike is a product development and marketing company that contracts with outside organizations to manufacture its athletic footwear. Ottawa-based Mitel Networks designs computer equipment but outsources manufacturing and repair to BreconRidge, another Ottawa high tech firm.³⁴

NETWORK ORGANIZATIONS Another structural option for managers wanting to minimize or eliminate organizational boundaries is the **network organization**, which is a small core organization that outsources major business functions.³³ This approach allows organizations to concentrate on what they do best and to contract out other activities to companies that specialize in those activities. Many large organizations use the network structure to outsource manufacturing.

While many companies use outsourcing, not all are successful at it. Managers should be aware of some of the problems involved in outsourcing, such as the following:

- choosing the wrong activities to outsource
- choosing the wrong vendor
- writing a poor contract
- failing to consider personnel issues
- losing control over the activity

virtual organization

An organization that has elements of a traditional organization, but also relies on recent developments in information technology to get work done.

network organization

A small core organization that outsources major business functions.

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- ignoring the hidden costs
- failing to develop an exit strategy (for either moving to another vendor or deciding to bring the activity back in-house)

A review of 91 outsourcing activities found that the two most likely reasons for an outsourcing venture failure were writing a poor contract and losing control of the activity.³⁵ Canadian managers say they are reluctant to outsource.³⁶ The PricewaterhouseCoopers (PwC) 2011 Business Insights survey³⁷ showed outsourcing as the lowest priority in terms of improving the competitiveness of Canadian businesses, while innovation and reducing costs were perceived as more important than outsourcing for dealing with volatility. In some cases, companies formerly used as outsourcers are now direct competitors due to globalization.

Organizational Design Challenges

As managers look for organizational designs that will best support and facilitate employees doing their work efficiently and effectively in today's dynamic environment, certain challenges arise with which they must contend. These challenges include designing office space, keeping employees connected, building a learning organization, and managing global structural issues.

DESIGNING OFFICE SPACE Office space has always been a battle between freeing employees to work and maximizing space to minimize costs (see Exhibit 5-9). In the early 1900s, Frederick Taylor suggested that properly organized offices would boost productivity. In 1964, Herman Miller designed the Action Office, with clusters of barrier-free offices. Openness and proximity were meant to break down barriers and encourage “meaningful traffic”. When the furniture was reduced in size and interlocked a few years later, the Action Office really took off.³⁸ The Cube Farm was the next phase as furniture firms were imitating Miller's design and using cheaper materials to make mass cubicles. Today's office spaces are collaborative, accommodating virtual workers with group spaces to engineer interaction and foster creativity. International design firm Gensler conducted a study

EXHIBIT 5-9 Comparison of the Major Office Styles

Office Style	Space/Cost	What They Got Right	What They Got Wrong
The Action Office (1960s–70s)	Average space per employee 500 sq ft \$22/sq ft (Toronto)	<ul style="list-style-type: none"> • Flexibility for employers to choose elements • Well-designed desk spaces gave better access to tools and resources 	<ul style="list-style-type: none"> • High-quality components were very expensive • Open environment was noisy and distracting
The Cube Farm (1980s–90s)	Average space per employee 144 sq ft \$40/sq ft (Toronto)	<ul style="list-style-type: none"> • Cubes offered some privacy and the ability to personalize • Businesses found cubicles flexible and affordable 	<ul style="list-style-type: none"> • Quarters became cramped • Bad air and artificial light left workers unmotivated and anxious to leave • “Prairie-dogging,” or the tendency of workers to pop their heads up to communicate with others
The Collaborative Office (present)	Average space per employee 176 sq ft \$68/sq ft (Toronto)	<ul style="list-style-type: none"> • Open designs encourage interaction • Workers can adapt to the environment that is best for them • Smaller footprint equals lower costs 	<ul style="list-style-type: none"> • Open-concept offices distract from the ability to be deep in focus • Less efficiency in shared spaces

Source: Adapted from Steve Brearton, “Circles and Squares,” *Canadian Business*, November 2014, pp. 57–63.

And the Survey Says...⁴⁰

8% of companies surveyed have more than 40 percent of their employees working virtually.

44% of employees say their top gripe about working from home is not having face-to-face interaction.

29% of employees are called “any time, anywhere.”

20% of employees have “nonstandard” jobs (work fewer than 35 hours a week, independent contractors, day labourers, etc.).

12% of respondents to a global workforce survey said that telecommuting was extremely important to them.

81% of employers offer some form of flexible work arrangements.

37% of employees work from multiple locations.

53% of employees use multiple devices for work.

in 2013 that found workers spent about one-quarter of their workday collaborating and more than half in deep focus. That means employers need to provide office environments that facilitate interaction while allowing freedom from interruption.³⁹

KEEPING EMPLOYEES CONNECTED Many organizational design concepts were developed during the twentieth century, when work tasks were fairly predictable and constant, most jobs were full-time and continued indefinitely, and work was done at an employer’s place of business under a manager’s supervision.⁴¹ However, many organizations today are not like that, as you saw in our preceding discussion of virtual and network organizations. A major structural design challenge for managers is finding a way to keep widely dispersed and mobile employees connected to the organization. We cover information on motivating these employees in Chapter 9.

BUILDING A LEARNING ORGANIZATION Doing business in an intensely competitive global environment, managers at British retailer Tesco realize how important it is for stores to operate smoothly behind the scenes. At Tesco, they do so through the use of a proven tool—a set of software applications called Tesco in a Box, which promotes consistency in operations and acts as a way to share innovations. Tesco is an example of a learning organization, an organization that has developed the capacity to constantly learn, adapt, and change.⁴² In a learning organization, employees continually acquire and share new knowledge and apply that knowledge in making decisions or doing their work. Some organizational theorists even go so far as to say that an organization’s ability to learn and to apply that learning may be the only sustainable source of competitive advantage.⁴³

What structural characteristics does a learning organization need? First, members of a learning organization must be able to share information and collaborate on work activities throughout the entire organization—across different functional specialties and even at different organizational levels. This sharing and collaboration requires that structural and physical barriers be minimal. In such a boundaryless environment, employees can work together and collaborate in doing the organization’s work the best way they can and learn from each other. Second, because of the need to collaborate, teams tend to be an important feature of a learning organization’s structural design. Employees work in teams empowered to make decisions about doing whatever work needs to be done and to resolve issues. With empowered employees and teams, the organization has little need for “bosses” to direct and control. Instead, managers serve as facilitators, supporters, and advocates.

MANAGING GLOBAL STRUCTURAL ISSUES Are there global differences in organizational structures? Are Australian organizations structured like those in Canada? Are German organizations structured like those in France or Mexico? Given the global nature of today’s business environment, managers need to be familiar with the issues surrounding structural differences. Researchers have concluded that the structures and strategies of organizations worldwide are similar, “while the behavior within them is maintaining its cultural uniqueness.”⁴⁴ What does this mean for designing effective and efficient structures? When designing or changing structure, managers may need to think about the cultural implications of certain design elements. One study showed that formalization—rules and bureaucratic mechanisms—may be more important in less economically developed countries and less important in more economically developed countries, where employees may have higher levels of professional education and skills.⁴⁵ Other structural design elements may be affected by cultural differences as well, such as chain of command and span of control.

A Final Thought

No matter what structural design managers choose for their organization, the structure should help employees work in the most efficient and effective way possible to meet the organization’s goals. After all, structure is simply a means to an end. To understand your reaction to organizational structure, see at the end of the chapter.

5 Review and Apply

Summary of Learning Outcomes

5.1 What are the major elements of organizational structure?

Organizational structure is the formal arrangement of jobs within an organization. Organizational structures are determined by six key elements: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization. Decisions made about these elements define how work is organized; how many employees managers supervise; where in the organization decisions are made; and whether employees follow standardized operating procedures or have greater flexibility in how they do their work.

For Empire Company Limited, separating the operation of the grocery retail and related real estate because of the work specialization involved makes sense. For example, Sobeys executives would not necessarily make good decisions about which Shell stations to acquire.

5.2 What factors affect organizational structure? No one organizational structure is best. The appropriate structure depends on the organization's strategy (innovation, cost minimization, imitation), its size, the technology it uses (unit production, mass production, or process production), and the degree of environmental uncertainty the organization faces.

For Empire, organizing its grocery businesses by brand makes sense—Sobeys, Safeway, and IGA are different “brands” with different types of customers. Each brand has a similar organizational structure, as size, technology, and environmental uncertainty would not differ in any meaningful way among the brands.

5.3 Beyond traditional organizational designs, how else can organizations be structured? The traditional structures of

organizations are simple, functional, and divisional. Contemporary organizational designs include team structure, matrix and project structures, and boundaryless organizations.

Empire moved from a regional management structure to one that resembles a traditional divisional structure for its two businesses. Other structures might be considered to operate its grocery business, such as a project structure or a boundaryless organization, because retail stores can be managed in a variety of ways.

SNAPSHOT SUMMARY

5.1 Defining Organizational Structure

Work Specialization
Departmentalization
Chain of Command
Span of Control
Centralization and Decentralization
Formalization

5.2 What Contingency Variables Affect Structural Choice?

5.3 Common Organizational Designs

Traditional Organizational Designs
Contemporary Organizational Designs
Organizational Design Challenges
A Final Thought

MyManagementLab

Study, practise, and explore real management situations with these helpful resources:

- **Interactive Lesson Presentations:** Work through interactive presentations and assessments to test your knowledge of management concepts.
- **PIA (Personal Inventory Assessments):** Enhance your ability to connect with key concepts through these engaging self-reflection assessments.
- **Study Plan:** Check your understanding of chapter concepts with self-study quizzes.
- **Simulations:** Practise decision making in simulated management environments.



PERSONAL
INVENTORY
ASSESSMENT

Discussion Questions

1. Describe what is meant by the term *organizational design*.
2. What is the difference between a mechanistic and an organic organization?
3. Describe the characteristics of a learning organization. What are its advantages?
4. Which do you think is more efficient: a wide or a narrow span of control? What is an example of a company that would benefit from a narrow span of control? A wide span of control?
5. Do you think the concept of organizational structure, as described in this chapter, is appropriate for charitable organizations? If yes, which organizational design do you believe to be most appropriate? If no, why not? Explain your position.
6. Why should structure follow strategy instead of the reverse?
7. What functions could your college or university outsource? Why?

Developing Management Skills

Dilemma

Choose an organization for which you have worked. How did the structure of your job and the organization affect your job satisfaction? Did the tasks within your job make sense? In what ways could they be better organized? What structural changes would you make to this organization? Would you consider making this a taller or flatter organization (that is, would you increase or decrease the span of control)? How would the changes you have proposed improve response to customers and your job satisfaction?

Becoming a Manager

- If you belong to a student organization or are employed, notice how various activities and events are organized through the use of work specialization, chain of command, authority, responsibility, and so forth.
- As you read current business periodicals, note what types of organizational structures businesses use and whether or not they are effective.
- Talk to managers about how they organize work and what they have found to be effective.
- Look for examples of organizational charts (visual representations of organizations' structures) and use them to try to determine what structural design the organization is using.

Diversity Matters

Most companies recognize the benefits of employing a diverse workforce. Along with its many advantages, diversity also presents challenges for managers. Managers must dedicate focus to creating a cohesive work environment. Organizational leaders can ensure that workplace diversity is successful by enacting effective policies, communicating the organization's diversity vision, and providing employees with diversity training.

Many organizations are moving toward a full-time diversity champion role. Often that role is housed within HR, which can lead to misalignment with the organization's structure and operations. Diversity planning should align with an organization's vision and strategy. To do so, the diversity role should reside outside a functional area like marketing or HR.

The goal of diversity awareness is to create a workplace where employees appreciate differences in race, gender, religion, cultural values, and thinking styles. As an example, diversity can help teams in the workplace develop a wider variety of problem-solving strategies and approaches. Diversity training is often necessary to reduce employee conflict.

Companies can use evaluations to measure the effectiveness of its diversity workforce through employee turnover, and employee satisfaction with their job and the work environment. Using formal evaluation allows companies to reward individuals and teams that follow company diversity policies and guidelines.

Hey, You're the Boss Now! Delegating 101

ABOUT THE SKILL

Managers get things done through other people. Because any manager's time and knowledge is limited, effective managers need to understand how to delegate. Delegation is the assignment of authority to another person to carry out specific duties. It allows an employee to make some of the decisions. Delegation should not be confused with participation. In participative decision making, authority is shared. In delegation, employees make their own decisions.

STEPS IN DEVELOPING THE SKILL

A number of actions differentiate the effective delegator from the ineffective delegator. You can be more effective at delegating if you use the following five suggestions.⁴⁶

1. **Clarify the assignment.** Determine what is to be delegated and to whom. You need to identify the person

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who is most capable of doing the task and then determine whether he or she has the time and motivation to do the task. If you have a willing and able employee, your responsibility is to provide clear information on what is being delegated, the results you expect, and any time or performance expectations you may have. Unless there is an overriding need to adhere to specific methods, you should specify only the results expected. Get agreement on what is to be done and the results expected, but let the employee decide the best way to complete the task.

2. **Specify the employee's range of discretion.** Every situation of delegation comes with constraints. Although you are delegating to an employee the authority to perform some task or tasks, you are not delegating unlimited authority. You are delegating authority to act on certain issues within certain parameters. You need to specify what those parameters are so that employees know, without any doubt, the range of their discretion.
3. **Allow the employee to participate.** One of the best ways to decide how much authority will be necessary to accomplish a task is to allow the employee who will be held accountable for the task to participate in that decision. Be aware, however, that allowing employees to participate can present its own set of potential problems as a result of employees' self-interests and biases in evaluating their own abilities.
4. **Inform others about the delegation.** Delegation should not take place behind the scenes. Not only do the manager and employee need to know specifically what has been delegated and how much authority has been given, so does anyone else, both inside and outside the organization, who is likely to be affected by the employee's decisions and actions. Essentially, you need to communicate what has been delegated (the task and amount of authority) and to whom.
5. **Establish feedback channels.** To delegate without establishing feedback controls is to invite problems. The establishment of controls to monitor the employee's performance increases the likelihood that important problems will be identified and the task will be completed on time

and to the desired specifications. Ideally, these controls should be determined at the time of the initial assignment. Agree on a specific time for the completion of the task and then set progress dates on which the employee will report back on how well he or she is doing and on any major problems that may have arisen. These controls can be supplemented with periodic checks to ensure that authority guidelines are not being abused, organizational policies are being followed, proper procedures are being met, and so forth.

PRACTISING THE SKILL

Ricky Lee is the manager of the contracts group of a large regional office-supply distributor. His manager, Anne Zumwalt, has asked him to prepare, by the end of the month, the department's new procedures manual, which will outline the steps followed in negotiating contracts with office products manufacturers who supply the organization's products. Because Ricky has another major project he is working on, he went to Anne and asked her if it would be possible to assign the rewriting of the procedures manual to Bill Harmon, one of his employees, who has worked in the contracts group for about three years. Anne said she had no problems with Ricky reassigning the project as long as Bill knew the parameters and the expectations for the completion of the project. Ricky is preparing for his meeting in the morning with Bill regarding this assignment. Prepare an outline of what Ricky should discuss with Bill to ensure the new procedures manual meets expectations.

Your Essential Management Reading List

Learning from key management experts can help you understand today's management theory and practice. What follows is a list of some of the more influential management books:

- *Change by Design*—Tim Brown
- *Building the Awesome Organization*—Katherine Catlin and Jana Matthews
- *The Culture Game*—Dan Mezick

Team Exercises

3BL: The Triple Bottom Line

INTEGRATING SUSTAINABILITY INTO THE ORGANIZATIONAL STRUCTURE

Sustainability. Social responsibility. The environment. These concepts are buzzwords for regulators and stakeholders who put pressure on organizations to deal with 3BL issues, urging companies to determine how best to incorporate 3BL as part of their organizational structure.⁴⁷

Organizations are concerned both with structure—where will 3BL decision-making authority reside?—and with the processes and flow of information across the organization. What kind of internal structure and support would magnify their 3BL efforts?

Organizations typically feature one of three 3BL structures.⁴⁸ The first is the traditional model, in which 3BL is an initiative or a few activities. Minimal resources are allocated to 3BL, and they may be spread across many departments or business units. The second is the federated model, where the

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organization has likely created a 3BL business unit and engaged an executive such as a Chief Sustainability Officer or a Chief Responsibility Officer. This unit is able to liaise with other business units and starts to align 3BL priorities with business strategy. The last model is an embedded structure, where 3BL is no longer a separate initiative but integrated into the company's business model, structure, and culture. Companies at this point view 3BL as a major source of competitive advantage.

THINKING STRATEGICALLY ABOUT 3BL

Some best practices for ensuring 3BL success in an organization include the following:

- *Tie responsibility with senior executives.* You need more than “support” from the CEO—the CEO needs to drive the bus and set up a cross-functional 3BL committee with employee participation.
- *Establish regular target setting and reporting.* The focus on accountability builds traction within an organization.
- *Use employees, partners, and collaborators to leverage 3BL capabilities.* Achieve greater outcomes by working collaboratively with everyone in your sphere of influence.
- *Recruit 3BL change agents.* These champions of change will help embed a culture of concern for people, profit, and the planet.

How Is Your School Organized?

Every university or college displays a specific type of organizational structure. For example, if you are a business major, your classes are often housed in a department, school, or faculty of business. But have you ever asked why? Or is it something you just take for granted?

In Chapter 3 you had an opportunity to assess your college or university's strengths, weaknesses, and competitive advantage and see how these fit into its strategy. In this chapter, we argued that structure follows strategy. Given your assessment in Chapter 3 (if you have not done so, you may want to refer to page 63 for the strategy part of this exercise), analyze your college or university's overall structure in terms of its degree of formalization, centralization/decentralization, and complexity. Look at the departmentalization that exists. Is your college or university more organic or mechanistic? How well does your college or university's structure fit with its strategy? Do the same thing for your college or university's size, technology, and environment. Assess its size, degree of technological routineness, and environmental uncertainty. Based on these assessments, what kind of structure would you predict that your college or university has?

Does it have this structure now? Compare your findings with those of other classmates. Are there similarities in how each viewed the college or university? Differences? To what do you attribute these findings?

Be the Consultant: The Nova Scotia Association of Social Workers

The Nova Scotia Association of Social Workers (NSASW) contracted your management consulting firm to conduct an operational structure review.⁴⁹ The size of social worker governance councils varies across Canada, with larger associations like NSASW having professional staff to carry out association activities. The NSASW has a governance council of 30, as well as a Board of Examiners to provide oversight for the association. The Council is the governance body for the association and is responsible to follow the association bylaws and the *Social Workers Act of Nova Scotia*. The Board is responsible for registration and renewal of provincial social workers, regulation of the members' practice to protect the public, and dealing with discipline and complaints. The Council and the Board have a difficult relationship, and staff roles, responsibilities, and reporting relationships are not clearly defined. The executive director complains about being stressed and overworked and is not conducting performance evaluations. The membership has increased dramatically, putting a burden on the association's financial resources, staff, and volunteers.

Your analysis leads you to discover that Council meetings regularly run late and not all of the agenda items are accomplished. Consensus is almost impossible to reach, and decision making is ineffective at times. The Board plays a valuable role in assuring the public and professional interests are safeguarded, but no formal communication mechanism between the Board and the Council has been established.

You provided an interim report with many recommendations. Specifically, the Board has brought you in to discuss three of your recommendations:

1. reduction of the governance council size to 15 members
2. creation of a liaison committee to work with both the Council and the Board to develop a stronger working and reporting relationship
3. formal approval of staff position descriptions by Council, with the executive director responsible for their implementation, to facilitate the association's performance management system

What information will you provide to the Council to support your recommendations?

Business Cases

Pfizer: A New Kind of Structure

Admit it.⁵¹ Sometimes the projects you are working on (school, work, or both) can get pretty boring and monotonous. Do you ever dream about having a magic button you could push to get someone else to do the boring, time-consuming stuff for you? At Pfizer, such a button is a reality for a large number of employees.

As a global pharmaceutical company, Pfizer is continually looking for ways to be more efficient and effective. The company's head of pfizerWorks (aka Office of the Future), Jordan Cohen, found that the "Harvard MBA staff we hired to develop strategies and innovate were instead Googling and making PowerPoints." Indeed, internal studies conducted to find out just how much time its valuable talent was spending on menial tasks was startling. The average Pfizer employee was spending 20 to 40 percent of his or her time on support work (creating documents, typing notes, doing research, manipulating data, scheduling meetings) and only 60 to 80 percent on knowledge work (strategy, innovation, networking, collaborating, critical thinking). The problem was not just at lower levels. Even the highest-level employees were affected. So Cohen began looking for solutions. The solution he chose turned out to be the numerous knowledge-process outsourcing companies based in India.

Initial tests of outsourcing support tasks did not go well. However, Cohen continued to tweak the process until everything worked. Now Pfizer employees can click the OOF (Office of the Future) button in Microsoft Outlook, and they are connected to an outsourcing company where a single worker in India receives the request and assigns it to a team. The team leader calls the employee to clarify the request. The team leader then emails back a cost estimate for the requested work. At this point, the Pfizer employee can say yes or no. Cohen says that the benefits of OOF have been unexpected. Time spent on data analysis has been cut—sometimes in half. The financial benefits are also impressive. Pfizer employees love it. "It's kind of amazing," Cohen says, "I wonder what they used to do."

Questions

1. Describe and evaluate what Pfizer is doing.
2. What structural implications—good and bad—does this approach have? (Think in terms of the six organizational design elements.)

3. Do you think this arrangement would work for other types of organizations? Why or why not?

4. What role do you think organizational structure plays in an organization's efficiency and effectiveness? Explain.

Levitt-Safety Limited

Levitt-Safety Limited is Canada's largest specialist supplier of safety equipment and services.⁵⁰ Like many Canadian companies, it looked to emerging foreign markets for growth opportunities. However, globalization and outsourcing are no longer a one-way street. Foreign competitors are eyeing the Canadian market, because barriers to entry, such as the North American regulatory and approval bodies, are easier to navigate in Canada. To be successful in the Canadian marketplace, foreign companies need to spend a lot of time and money to build up their brands. Or they could form an alliance with a company like Levitt-Safety to piggyback on a brand that is already established and well known after 36 years of business.

Increased competition has led to downward pressure on profit margins. To counter this, CEO Bruce Levitt created an intermediary company to import product and resell it to Levitt-Safety's distribution business. The company sales teams now have a much better understanding of inventory carrying costs, stock-outs, dead stock, and other often hidden costs. Levitt-Safety also has a separate manufacturing business, NL Technologies, run by Heidi Levitt, which has become a world leader in the manufacturing and design of mining technology.

Levitt-Safety has created an effective organizational structure, with an intermediary and a separately managed company. Levitt-Safety is looking at adding another brand that it can sell to others in the industry.

Questions

1. Should Bruce Levitt set up another company or, instead, set up an alliance with a foreign company that would sell its products under the Levitt-Safety name?
2. How has Levitt-Safety remained a family business for over 75 years?