CHAPTER THREE  
FUNDAMENTALS OF ORGANIZATION STRUCTURE  

CHAPTER OVERVIEW  
This chapter introduces basic concepts of organization structure and shows how to design structure as it appears on the organization chart. First we define structure and provide an overview of structural design. Next, an information-sharing perspective explains how to design vertical and horizontal linkages to provide needed information flow and coordination. The chapter then presents basic design options, followed by strategies for grouping organizational activities into functional, divisional, matrix, horizontal, virtual network, or hybrid structures. The final section examines how the application of basic structures depends on the organization’s situation (various contingencies) and outlines the symptoms of structural misalignment.  

Learning Objectives  
After reading this chapter you should be able to:  
- Define the three key components of organization structure.  
- Explain the vertical and horizontal information-sharing concepts of structure.  
- Understand the role of task forces and teams in organization structure.  
- Identify departmental grouping options, such as functional, divisional, and matrix.
- Understand the strengths and weaknesses of various structural forms.
- Explain new horizontal and virtual network structural forms.
- Describe the symptoms of structural deficiency within an organization.

CHAPTER OUTLINE

Managing by Design
Before reading the chapter, students will give their opinions on the following statements:

- A popular form of organizing is to have employees work on what they want in whatever department they choose so that motivation and enthusiasm stay high.
- Committees and task forces whose members are from different departments are often worthless for getting things done.

- Top managers are smart to maintain organizational control over the activities of key work units rather than contracting out some work unit tasks to other firms.

A LOOK INSIDE
Nissan

Carlos Ghosn brought Nissan back from the brink of bankruptcy in the late 1990s, but his skills at restructuring were put to the test once again when Japan’s Number 2 automaker began showing surprisingly weak profit and declining market share in 2013. Top executives pinpointed the cause. It wasn’t in the design studio or on the factory floor, or even in the planning office. The problem was the organization structure, with one chief operating officer overseeing a rapidly expanding number of opportunities and investments around the globe. In the new structure, three executive vice presidents will oversee planning and execution and work closely together from the beginning, enabling them to spot problems quickly, balance resources, and coordinate investments among regions. The primary goal of the new structure is to improve coordination so that problems can be solved quickly. The goals are achievable, Ghosn says, with the right management structure in place so that people are collaborating. “We need a management team that delivers,” he said.

Organization Structure

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

**ASSESS YOUR ANSWER**

A popular form of organizing is to have employees work on what they want in whatever department they choose so that motivation and enthusiasm stay high.

**ANSWER:** Disagree. A small number of firms have tried this approach with some success, but a typical organization needs to structure its work activities, positions, and departments in a way that ensures work is accomplished and coordinated to meet organizational goals. Many managers try to give some consideration to employee choices as a way to keep enthusiasm high.

The organization chart is the visual representation of underlying activities and processes. Diagrams outlining church hierarchy can be found as far back as medieval churches in Spain. Through most of the 20th century, the hierarchical, functional structure predominated. But in recent years, organizations have developed other structural designs, often aimed at increasing horizontal communication.

**Information-Sharing Perspective on Structure**

The structure must fit information requirements of the organization so people have neither too little information nor too much irrelevant information. Vertical linkages are designed primarily for control, in contrast to horizontal linkages that are designed for coordination and collaboration; all organizations need a mix.

**Emphasis of Vertical/Mechanistic and Horizontal/Organic Linkages**

<table>
<thead>
<tr>
<th>Vertical linkages - emphasis on efficiency and control</th>
<th>Specialized tasks, hierarchy of authority, many rules, vertical communication and reporting systems, few teams, task forces, or integrators, centralized decision making</th>
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<tbody>
<tr>
<td>Horizontal linkages - emphasis on learning</td>
<td>Shared tasks/empowerment, relaxed hierarchy/few rules, horizontal/face-to-face, communication, many teams and task forces, informal / decentralized decision making</td>
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Many of today's managers are running twenty-first century organizations using ideas, practices, and structural mechanisms invented a century or more ago. The author offers glimpses of what is possible when managers build structure around principles of community, creativity, and information sharing rather than strict hierarchy. Hamel notes that few organizations have a well-honed process for management innovation.

**BOOK MARK**
**The Future of Management**
by
Gary Hamel with Bill Breen

The new version of the Avalon, designed in Michigan and built in Kentucky, is Toyota's most American vehicle. It is a test of how well Toyota can decentralize decision making. Toyota managers have delegated responsibilities. Toyota was criticized for its need to coordinate every decision from headquarters. Now, regional managers believe that they have the freedom to take risks.

**IN PRACTICE**
**Toyota**

Vertical Information Sharing
Managers create *information linkages* to facilitate communication and coordination among organizational elements. *Vertical linkages* are used to coordinate activities between the top and bottom of an organization and are designed primarily for control of the organization.

Hierarchical referral
This vertical device is illustrated by the vertical lines in Exhibit 3.1. The lines of the organization chart act both up and down the chain as the communication channel.

Rules and plans
For repetitious problems and decisions, a rule or procedure can be established so employees know how to respond without communicating on each separate issue. The budget is a good example.

Vertical information systems
This strategy to increase vertical information capacity includes
periodic reports, written information and computer-based communications distributed to managers.

Horizontal Information Sharing and Coordination
Horizontal communication overcomes barriers between departments and provides opportunities for coordination among employees to achieve unity of effort and organizational objectives. **Horizontal linkage** refers to communication and coordination horizontally across organizational departments.

Information systems
Cross-functional information systems enable employees to routinely exchange information.

Liaison Roles
Higher level horizontal linkage is direct contact between employees affected by a problem. The **liaison role** can be used to identify a person in one department with the responsibility for communicating and achieving coordination with another department.

Task forces
As a temporary committee composed of representatives from each department affected by a problem, the group links several departments to solve common problems. The task force is disbanded after tasks are accomplished.

<table>
<thead>
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<th>ASSESS YOUR ANSWER</th>
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<tbody>
<tr>
<td>Committees and task forces whose members are from different departments are often worthless for getting things done.</td>
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<tr>
<td><strong>ANSWER:</strong> <em>Disagree.</em> The point of cross-functional committees and task forces is to share information to coordinate their departmental activities. Meeting, talking, and disagreeing is the work of the committee. These groups should not try to “get things done” in the sense of being efficient.</td>
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Full-time integrator
Usually with a title such as product manager, project manager, or brand manager, this full-time position outside the affected departments is created to achieve coordination between two or more departments. The integrator does not
have formal authority over team members (because that rests with managers of the functional departments), but nevertheless the integrator has responsibility for the entire product (or project or brand).

**Teams**

Teams can be the strongest horizontal linkage mechanism. Teams are permanent task forces, often used in conjunction with a full-time integrator. Jet Blue formed a special project team of crew schedulers, systems operators, dispatchers, and reservations agents to revise handling operations such as severe weather. A **virtual team** is made up of organizationally or geographically dispersed members who are linked through advanced information and communications technologies.

### HOW DO YOU FIT THE DESIGN?
The Pleasure/Pain of Working on a Team

Your approach to your job or schoolwork may indicate whether you thrive on a team. Teamwork can be either frustrating or motivating depending on your preference. On a team you will lose some autonomy and have to rely on others who may be less committed than you. On a team you have to work through other people and you lose some control over work procedures and outcomes. On the other hand, teams can accomplish tasks far beyond what an individual can do, and working with others can be a major source of satisfaction.

Exhibit 3.6 summarizes the mechanisms available to managers for achieving horizontal linkages. The higher-level devices provide more horizontal information capacity, which is appropriate to utilize only when the need is present.

**Relational Coordination**

**Relational coordination** refers to frequent, timely, problem-solving communication carried out through relationships of shared goals, shared knowledge, and mutual respect. At Southwest Airlines, operations agents span boundaries to coordinate departure functions.

**Organization Design Alternatives**

The overall design of organization structure indicates: required work activities, reporting relationships, and departmental groupings.

**Required Work Activities**
Departments are created to perform strategically important tasks.

Reporting Relationships
The chain of command, an unbroken line of authority, is represented by vertical lines on an organization flow chart.

Departmental Grouping Options
Departmental grouping can be a functional, divisional, multifocused, horizontal, or modular grouping. The next major section of the text shows the functional and divisional grouping, and the two sections after that cover the multifocused grouping or matrix form, and finally the horizontal grouping.

Functional, Divisional, and Geographic Designs

Functional Structure
Functional structure consolidates human knowledge and skills with respect to specific activities in order to provide depth of expertise. This structure can be effective if there is low need for horizontal coordination between functional departments. Strengths include economies of scale within functional departments and weaknesses include a slow response time to environmental changes.

IN PRACTICE
Narayana Hrudayalaya Hospital

Dr. Devi Shetty offers cutting-edge medical care at a fraction of the cost by applying the principles of Henry Ford’s mass production. When services can be broken down into explicit steps, employees can follow set rules and procedures. While they do the same function over and over in healthcare, you can’t do one thing and reduce the price,” Dr. Shetty says. “We have to do 1,000 small things.”

Functional Structure with Horizontal Linkages
Functional structure with horizontal linkages reflects a shift toward flatter and more horizontal structures. Horizontal coordination can be improved with information systems, liaison roles between departments, full-time integrators or project managers task forces, or teams. Horizontal linkages overcome some of the disadvantages of the functional structure.

Divisional Structure
Divisional structure, sometimes called product structure or strategic
business units, means that departments are grouped based on organizational outputs. Decision-making is decentralized. Strengths include a design suited to fast change in an unstable environment. Weaknesses include the elimination of economies of scale and problems with cross-unit communication.

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<td>Microsoft</td>
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Microsoft is having a hard time keeping pace with Apple and Google. The company’s divisions have been at war. Innovative technologies for tablets and smartphones were derailed by infighting. Top executives are dissolving the eight product divisions in favor of four units to foster collaboration and teamwork. Each major initiative will have a corporate champion who will report to the CEO, to keep everyone pulling in the same direction.

**Geographical Structure**

Geographical structure often groups the organization's users or customers together by geographical area. Strengths and weaknesses are similar to divisional structure. The organization can adapt to specific needs of its own region, and employees identify with regional goals. Horizontal coordination within a region is emphasized rather than linkages across regions. The United Way of America uses a geographic structure, with a central headquarters and semi-autonomous local units.

**Matrix Structure**

Recall the multi-focused option for grouping departments that was introduced earlier in the chapter. The matrix can be used when both technical expertise and product innovation and change are important. When the structure needs to be multifocused for simultaneous emphasis on both product and function or product and geography, the matrix structure can be considered. The gives dual lines of authority to both the functional and product chains simultaneously.

**Conditions for the Matrix**

Matrix structure combines product and functional designs with its unique purposeful violation of unity of command. Three conditions are necessary for the matrix: pressure exists to share scarce resources across product lines; environmental pressure for two or more critical factors such as in-depth technical knowledge and frequent new products; and, the environment is both complex and
Two variations have evolved that may shift emphasis either toward the traditional vertical hierarchy or toward the horizontal teams. The **functional matrix** gives functional bosses primary authority, while project or product managers simply coordinate product activities. The **product matrix** gives the project or product managers primary authority, while the functional managers simply offer advisory expertise as needed for projects.

**Strengths and Weaknesses**

The matrix structure is best when environmental change is high and when goals reflect a dual requirement for both product and functional goals. Weaknesses include the fact that dual authority, particularly in the balanced matrix, can be frustrating and confusing to employees.

### IN PRACTICE

**Englander Steel**

Moving from the functional structure they’d employed for 160 years to a matrix structure was necessary for Englander Steel to respond to the changing market. Implementation of the matrix structure was slow, but after a year of training and consulting with an outside, firm, Englander Steel was on track. See Exhibit 3.13 for the final design.

**Horizontal Structure**

A **horizontal structure** organizes employees around core processes. Organizations shift to a horizontal structure during **reengineering**, or **business process reengineering**—the redesign of a vertical organization. A **process** refers to a group of related tasks that transform inputs into outputs. The horizontal structure organizes employees around core processes by bringing together people who work on a common process so they can easily communicate and coordinate their efforts. The traditional vertical hierarchy with departmental boundaries is eliminated.

**Characteristics:**

- Structure created around cross-functional core processes rather than tasks, functions, or geography
- Self-directed teams are the basis of organizational design

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• Process owners have responsibility for each core process in its entirety
• Team members are given the skills and authority to make decisions central to the team’s performance
• Customers drive the horizontal corporation with effectiveness measured by performance objectives.
• The culture is open, trustful and collaborative, with a focus on continuous improvement.

**IN PRACTICE**

**GE Salisbury**

GE’s Salisbury, North Carolina, plant found that the demand for custom-made electrical lighting panel boards did not fit with its vertical functional structure. The company changed to a horizontal structure that links sets of multi-skilled teams who are responsible for the entire build-to-order process. Managers have become *associate advisors* who guide and coach teams as needed. All teams work together and have access to the information they need to meet goals. The teams also set their own production targets, schedules, duties, and solve their own problems. Productivity and performance have dramatically improved using this structure.

**Strengths and Weaknesses**

Strengths include increased flexibility and responsiveness to changes in customer needs because of enhanced coordination. Weaknesses include that the horizontal structure can harm rather than help organizational performance unless managers determine which core processes are critical for bringing value to customers.

**Virtual Networks and Outsourcing**

With a *virtual network structure*, sometimes called a *modular structure*, the firm subcontracts most of its major functions or processes to separate companies and coordinates their activities from a small headquarters organization. In *outsourcing*, a firm contracts out certain tasks or functions, such as manufacturing, human resources, or credit processing, to other companies.

**How the Structure Works**

The virtual network organization is central hub surrounded by a network of outside specialists connected electronically. Organizational partners located in different parts of the world use networked computers or the Internet to exchange data and information rapidly.
IN PRACTICE
Sandy Springs, Georgia

The Atlanta suburb of Sandy Springs has 94,000 residents but just seven city employees. The entire city is run from a generic, one-story industrial park, where employees paid by the city work alongside those paid by outside contractors. Even the city’s courts and administrative work are handled by outside contractors. The city manager of Sandy Springs says that the key is in the art of drafting the right contracts.

Strengths and Weaknesses
Strengths include the ability to obtain talent and resources worldwide, achieving scale and reach without huge investments, being highly flexible and response to changing needs, and reducing administrative overhead costs. Weaknesses include lack of hands-on control of activities and employees, more time to manage relationships and conflicts with partners, risk of a partner failing, and weak employee loyalty and corporate culture.

ASSESS YOUR ANSWER
Top managers are smart to maintain organizational control over the activities of key work units rather than contracting out some work unit tasks to other firms.

ANSWER: Disagree. Virtual networks and outsourcing forms of organization design have become popular because they offer increased flexibility and more rapid response in a fast-changing environment. Outsourced departments can be added or dropped as conditions change. Keeping control over all activities in-house might be more comfortable for some managers, but it discourages flexibility.

Hybrid Structure

Most companies combine characteristics of functional, divisional, geographical, or horizontal structures to take advantage of the strengths of a particular structure while avoiding some of the weaknesses.

Combining characteristics of the functional and divisional structures
Functions that are important to each product or market are decentralized to self-contained units. However, other functions that require economies of scale and in-depth specialization are centralized at headquarters.
Combining characteristics of functional and horizontal structures
In response to concerns at Ford regarding customer service, executives decided that the horizontal model offered the best chance to gain a faster, more efficient, and better integrated approach to customer service. Several horizontally-aligned groups of multi-skilled teams focus on core processes in areas such as parts supply, logistics, and technical support. At the same time, a functional structure is maintained for finance, strategy and communication, and human resources, to serve the entire organization.

Applications of Structural Design

Each type of structure is applied in different situations and meets different needs.

Structural Alignment
Finding the right balance between vertical control and horizontal coordination is an important design decision. Vertical control is best associated with goals of efficiency and stability, while horizontal coordination is associated with learning, innovation, and flexibility.

Symptoms of Structural Deficiency
One or more of the following symptoms of structural deficiency may appear as an indication of the structure being out of alignment:
- There is an absence of collaboration among units.
- 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.

Design Essentials

- Organization structure must provide a framework of responsibilities, reporting relationships, and groupings, and it must provide mechanisms for linking and coordinating organizational elements.
- Organization structure can be designed to provide vertical and horizontal information linkages based on the information processing required to meet the organization’s overall goal.
- Alternatives for grouping employees and departments into overall structural design include functional grouping, divisional grouping, multifocused grouping, horizontal grouping, and virtual network grouping.
A virtual network structure extends the concept of horizontal coordination and collaboration beyond the boundaries of the organization.

The matrix structure attempts to achieve an equal balance between the vertical and horizontal dimensions of structure.

Managers attempt to find the correct balance between vertical control and horizontal coordination.

The purpose of the organization chart is to encourage and direct employees into activities and communications that enable the organization to achieve its goals.

DISCUSSION QUESTIONS


   ANSWER: Four components of structure are: the allocation of tasks and responsibilities to individuals and departments; the formal reporting relationships among employees; the grouping together of individuals into departments and into the total organization; the systems to ensure effective coordination and integration of effort among participants.

   Yes, many elements of structure appear on the organization chart. The organization chart indicates reporting relationships, the grouping together of individuals, and to some extent the allocation of tasks and responsibilities. Auxiliary documentation is normally needed to specify tasks and responsibilities in more detail. Moreover, the systems to ensure coordination typically are not on the organization chart. Coordination is a dynamic process, while the organization chart is static. Planning, vertical information systems, teams, task forces, etc. are used to achieve integration and typically are not shown on the organization chart, although horizontal dotted lines and vertical reporting relationships do suggest the desired flow of information.

2. When is a functional structure preferable to a divisional structure?

   ANSWER: It is preferred when environmental uncertainty is low to moderate, and when the dominant competitive issue is for technical specialization and efficiency. The functional structure groups employees together by common activity, so efficiency and economies of scale are realized. But coordination with other functions is more difficult, so adaptation to the external environment is less effective than for the product structure. The functional structure should also be considered when the organization is small to medium sized, when there are only a few
products, and when managers wish to provide employees with opportunities for in-depth skill development within functions.

3. Large corporations tend to use hybrid structures. Why?

**ANSWER:** As young corporations with a functional structure grow larger, they often develop multiple product lines. The dominant competitive issue requires success and coordination within each product line. Thus they reorganize into some form of self-contained units to obtain the advantages of close coordination across functions for each product. However, for some functions, corporations find that economies of scale are lost when the function is divided among product lines. A centralized legal department, for example, may be able to do the patent and lawsuit work for the entire corporation rather than having a separate legal department assigned to each product line. Through trial and error, corporations identify those functions which pertain to all product lines and centralize them at headquarters. Thus they obtain the advantages of both functional and product structures. Executives attain close collaboration among functions assigned to each product line, as well as economies of scale for functions that apply uniformly to all product lines.

4. What are the primary differences between a traditional, mechanistic organization designed for efficiency and a more contemporary, organic organization designed for learning?

**ANSWER:**

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<tr>
<th>Comparative Emphasis of Efficiency/Mechanistic vs. Learning/Organic Organizations</th>
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<tr>
<td><strong>Traditional</strong>&lt;br&gt; Vertical linkages - emphasis on efficiency and control</td>
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<tr>
<td><strong>Contemporary</strong>&lt;br&gt; Horizontal linkages - emphasis on learning</td>
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5. What is the difference between a task force and a team? Between a liaison role and integrating role? Which of these provides the greatest
amount of horizontal coordination?

**ANSWER:** A task force is a temporary committee composed of people from several departments to resolve a problem or to complete a project. Task forces are created for a single purpose and are disbanded when the task force has completed its activity. A team is a permanent committee. A team is used when continuous problems arise between departments and must be coordinated, or when the project is so large that it lasts a period of years. The team resolves problems by mutual adjustment between the departments involved.

A liaison role exists in one department and is responsible for coordinating with another department. An example would be a manufacturing engineer who is assigned to the engineering department but is responsible for coordinating changes with manufacturing. The integrating role is not located in either of the coordinated departments, and reports to a neutral manager. The integrating role is used when the coordination of tasks is large and complex, and involves more than two departments. Integrators often have the title of product manager or brand manager when they are personally responsible for achieving coordination for the product line.

The greatest amount of coordination is provided by the integrating role, because it is a full time task. Next is the team which meets regularly. A task force provides substantial coordination, but only during the period it is in existence. A liaison role provides coordination between two departments on a specific issue relevant to them.

6. As a manager, how would you create an organization with a high degree of relational coordination?

**ANSWER:** As a manager I would make relational coordination part of the very fabric and culture of the organization. I would encourage people to share information freely across departments and interact on a continuous basis to share knowledge and solve problems. I would train people in the skills needed to interact with one another and resolve cross-functional conflicts, build trust and credibility by showing concern for employees. I would foster relationships based on shared goals rather than emphasizing the goals of separate departments.

7. What conditions usually have to be present before an organization should adopt a matrix structure?

**ANSWER:** Most organizations are not appropriate for the matrix, which
FUNDAMENTALS OF ORGANIZATION STRUCTURE

establishes a complex relationship between employees because of its purposeful violation of unity of command. A functional, product, or hybrid structure is normally best. The special circumstances that are needed before the matrix can succeed are: a dominant competitive issue that has two or more critical elements, such as for both product and functional specializations; the organization task is both complex and uncertain so that high levels of internal coordination are required; economy of scale means the organization may not have enough people or facilities to set up separate product lines, so they need to allocate people across a variety of projects or products.

Colleges offer programs which cut across all departments of the business curricula, including the MBA program, graduate degree programs, and the undergraduate programs. To achieve coordination across programs, the college could appoint program directors with the responsibility to supervise faculty within each academic department that are assigned to their particular program. The faculty, then, have dual responsibilities, to their department and to the program director. The matrix structure would be appropriate for a college of business if the college wished to achieve coordination across each program it offered. If the college were more interested in functional expertise (e.g., the finance degree), the matrix would not be appropriate because a simpler functional structure would do the job more easily.

8. The manager of a consumer products firm said, “We use the brand manager position to train future executives.” Do you think the brand manager position is a good training ground? Discuss.

ANSWER: This question is designed to facilitate student discussion about integrator roles. Many organizations do use integrator roles, such as brand managers, to train executives. The reason is that brand managers have responsibility without authority. They are responsible for coordinating all relevant tasks that comprise the business whole for a given product or brand, and they have to do it through good interpersonal relationships and persuasion. Brand managers have to make things happen. They need the same skills required by general managers at upper levels, who don’t always rely on the formal hierarchy to get things done. People who can succeed in a brand manager’s position often have the characteristics required to succeed in general management.
9. Why do companies using a horizontal structure have cultures that emphasize openness, employee empowerment, and responsibility? What do you think a manager’s job would be like in a horizontally organized company?

**ANSWER:** In the horizontal structure, shared tasks and decentralized decision making can occur because power is not concentrated at the top. With a culture that supports employee empowerment, decentralization can be carried out by informed employees in a meaningful manner. The manager's job is less geared toward an authoritarian-like use of authority, but rather emphasizes communication skills to build an effective team at all levels of organizational activity.

10. Describe the virtual network structure. What are the advantages and disadvantages of using this structure compared to performing all activities in-house within an organization?

**ANSWER:** In the virtual network structure the firm subcontracts many or most of its major processes to separate companies and coordinates their activities from a small headquarters organization. The advantage of a virtual network is that it allows companies to be truly global, drawing on resources worldwide at the same time allowing the company to develop products and services and get them rapidly to market without huge investments. It also allows the company to be more flexible in a rapidly changing environment while reducing costs. A final strength is reduced administrative overhead. These advantages are lacking when an organization performs all activities in-house. However, the disadvantages of the virtual network structure include lack of hands-on control of activities and employees, more time to manage relationships and conflicts with partners, risk of a partner failing, and weak employee loyalty and corporate culture. By contrast, an in-house organization does not have these disadvantages.

**WORKBOOK ~ YOU AND ORGANIZATION STRUCTURE**

Students may get more from the assignment if you use an example when you assign the exercise. Show an actual chart, and discuss how the structure reflects strengths and weaknesses.

Identify the range of organization charts developed for the range of organizations given in the exercise. Is there a pattern between the type of organization and the
proposed organization chart, or between the mission and the proposed organization chart? Next, find the range of organization charts developed for each specific type of organization. If different options were proposed for that organization, would one option likely be more successful than another? In what ways?

CASES FOR ANALYSIS ~ C & C GROCERY STORES, INC.

This is an excellent case to give students an opportunity to apply concepts from the chapter. The next case on Aquarius Advertising Agency requires application of more advanced concepts, so be sure to present the two cases in sequence. Give students a set of discussion questions, such as the following, when you assign this case so that their reading of the case will be productive.

1. In general, how did C&C’s first organizational structure contribute to the store managers’ dissatisfaction?
2. What effect did it have had for store meat and produce managers to report to district specialists?
3. What structural problems contributed to the chain being slow to adapt to change?
4. Why was cooperation within stores so poor?
5. How would the proposed reorganization address the problems addressed in each question above?
6. What disadvantages might emerge over time with the proposed reorganization?
7. Given the advantages and disadvantages of each of the two structures, which would you adopt, and why? (Remember that no structure has only advantages, so if your discussion begins to take on that tone, broaden the input for a more well-rounded approach.)

CASES FOR ANALYSIS ~ AQUARIUS ADVERTISING AGENCY

1. Analyze Aquarius with respect to the five contextual variables. How would you describe the environment, goals, culture, size, and technology for Aquarius?

   ANSWER: Aquarius is a middle-sized firm operating in a relatively unstable environment, particularly because in the industry it was common to lose or gain clients quickly because of consumer behavior changes or product innovation, sometimes with no advance warning. The technology is predominantly non-routine because of the emphasis on creativity and art. The structure is functional with full-time integrators who provide horizontal linkage. The goals of the firm are to be creative and to satisfy customers.
2. Design a new organization structure that takes into consideration the contextual variables in the case and the information flows.

**ANSWER:** You may give students a hint of the general approaches that could be taken: One approach would be to treat account managers as project managers; another general approach would be to design a product structure with departments reporting to each account executive. Ask students to draw their specific alternatives on the board. A hybrid form of structure would be one specific possibility, with account executives reporting to client group vice-presidents (comparable to the "product" form), and most functional departments such as research, media, merchandising, copy department and art department reporting to each of the account executives. The functional heads who would still report directly to the president would probably be legal counsel, finance, and personnel. The structure matches the uncertainty of the environment, and would enable the organization to allow for unit or customer-driven adaptation to changes. There is high coordination across functions relative to any given customer’s account, necessary for the projects being designed. The emphasis is on client satisfaction with vertical and horizontal information flows possible by grouping together the individuals who communicate with one another.

3. Would a matrix structure be feasible for Aquarius? Why or why not?

**ANSWER:** To determine whether a matrix structure is feasible now, or will be feasible in the future, students should examine the requirements for a matrix.

*Is there a dual domain competitive issue?* Perhaps, in this case. Service and creativity require technical competence within each function, and yet at the same time, effective coordination across functions.

*Is the environment uncertain?* Overall, there is potential for rapid environmental change. The environment of an advertising agency is not as uncertain, and does not have as great a potential for instability as the environment of computer chip manufacturers, but nevertheless the environment is relatively uncertain. Customers change agencies frequently, and employees drift from agency to agency. New developments and techniques occur in the industry's technology.

*Is there a need to share resources across project or product lines?* Yes, one of the problems of moving to a hybrid structure with account executives serving as the focus of line authority is the tremendous
duplication of functional resources. Unless an agency is extremely large, it cannot afford to have separate teams of art, copy, merchandising, media, and research specialists for every account executive. This is an example of the need for shared resources that typifies a matrix structure.

Thus a matrix structure might be feasible for Aquarius Advertising. But in this situation, matrix is not the best form to recommend for immediate implementation. The matrix will be effective only when the experienced managers are willing to be complete team players and not overstep their authority--functional or product--in the complex violation of unity of command that occurs by design. The individuals involved in Aquarius now appear to lack the organizational savvy necessary for the matrix form to operate smoothly. Currently the account executive that is designated to be the liaison between clients and specialists is often bypassed. If that were to occur in the matrix, Aquarius would have a complex management system in place that still did not provide the coordination between functions that they need. With training, the managers and account executives could "grow into" a matrix form. However, for now, the best recommendation from a consulting point of view would be to strengthen the integrative capability of the account executives while it is in its functional structure.

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