

Third Edition

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# ORGANIZATION

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Text, Cases, and Readings  
on the Management of Organizational  
Design and Change

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Organizational Design and  
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# P r e f a c e

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We have prepared this third edition both to present developments in organizational design concepts and to make available cases and readings that have appeared since the second edition. The basic concepts and analytical techniques presented in the first and second editions have been maintained and special topics such as the design of high-commitment organizations and the influence of corporate culture on organizational change have been included.

We would like to thank the many users who have provided us with feedback on the first and second editions. We also owe special thanks to students in the Organizational Design and Development Class at the Graduate School of Management at Babson College, who tested the new material. Thanks also to the Word Processing department at Babson College for their assistance in preparation of the manuscript.

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**Phyllis F. Schlesinger**  
**Vijay Sathe**  
**Leonard A. Schlesinger**  
**John P. Kotter**

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# Chapter 1

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## Introduction

The real secret of the greatness of the Romans was their genius for organization.

*James Mooney, Vice President  
General Motors, 1931*

It was on the strength of their extensive organization that the peasants went into action and within four months (in 1926) brought about a great revolution in the countryside, a revolution without parallel in history.

*Mao Tse-tung, 1927*

### Organizing Human Resources

One important aspect of managerial work involves organizing human resources to ensure that the right people focus on the right tasks; that they have the proper information, tools, incentives, and controls to perform these tasks effectively and efficiently;<sup>1</sup> and that their efforts are coordinated to achieve the organization's overall objectives. Generally, the higher one's position in an organization, the greater the responsibility that person has for large numbers of employees and the more time and effort that manager will spend on this aspect of managerial work.

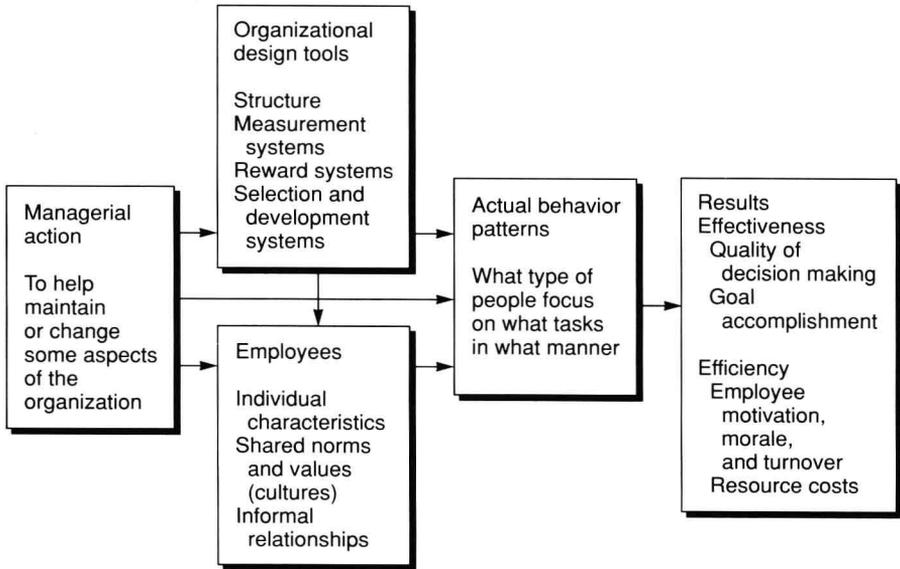
In a small group of people, a manager can create and maintain an appropriate organization through face-to-face interaction with his or her employees. The manager can verbally assign tasks, monitor their completion, coordinate activities, compensate people fairly, and so on. If the organization begins to break down, the manager can spot this immediately and remedy any problems. Managers only need to use their interpersonal skills to monitor the organization's functioning.

As the number of people a manager is responsible for grows, interpersonal skills become insufficient for maintaining an appropriate organization. A single manager

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<sup>1</sup>Effectiveness is measured by the degree to which an organization meets its goals. Efficiency is measured by the amount of resources expended in achieving results.

**Figure 1-1**  
**The Human Organization**



no longer can deal with everyone face-to-face, coordinate everything personally, and always be around to deal with crises. Many entrepreneurs have learned this lesson the hard way.

To organize large numbers of people, or people who are often spatially separated from one another, managers use different organization design tools. These tools include: job design, compensation systems, performance-appraisal systems, training programs, and reporting relationships. Considerable evidence suggests that the design and implementation of these tools can have a major impact on an organization's financial performance and on the quality of work life for its employees (see Figure 1-1). Furthermore, research indicates that improper design is one factor that undermines an organization's performance and generates various disruptive problems.

## Organizational Problems *(Symptoms of Larger Problem(s))*

Inappropriate organizational designs often lead to these types of recurring problems:

- Ineffective decision-making. (Production personnel in one company continually made poor decisions about inventory levels, which created various problems throughout the company.)

- **High employee turnover.** (One firm's management turnover was 30 percent per year, compared with less than 5 percent for other companies in its industry.)
- **Low morale.** (Nearly 50 percent of the employees in one company complained that they didn't like their jobs and felt that the company was a poor place to work.)
- **Expensive conflict among individuals and groups.** (The production and sales personnel within one company literally plotted against one another.)
- **A lack of employee motivation.** (The sales employees in one firm worked, on average, a five-hour day.)
- **Wasted employee energy.** (Using the same equipment and working the same number of hours, the production employees in one firm produced only 60 percent of the daily output of a similar firm.)
- **Lack of goal accomplishment.** (The sales department in one company missed its sales objectives for 10 consecutive quarters.)

An important characteristic of these organizational problems, which differentiates them from other types of problems, is that they *recur*. They recur not because they are caused by an idiosyncratic individual, group, or environmental event, but due to the **organizational design**.

In addition, inappropriate attempts to introduce changes in organizational design also can be costly. They can disrupt a company's operations, generate resistance and hostility among employees, and lead to any of the organizational problems previously listed. Such improper strategies can simply fail to produce a needed change, or they can generate change at burdensome cost to an organization.

## The Purpose and Organization of This Book

The basic purpose of this book is demonstrating how to avoid potential organizational problems through appropriate **planning** and how to solve existing organizational problems through **organizational analysis and action planning**. Specifically, our objectives are:

1. To provide examples that illustrate a variety of real situations in which managers deal with organizational issues.
2. To provide the best research-based conceptual maps to help analyze organizational design and change issues.
3. To provide a sequence of material that efficiently develops new awareness, ideas, and skills related to organizational design and change.

To achieve these objectives, the book contains text, cases, and readings. The text provides an integrated analytical framework based on recent organizational research. The readings explore questions and issues identified in the text in greater detail and from more diverse viewpoints. The cases, mostly written in the past five years, focus on common organizational problems and questions that managers face today.

The book is organized into five parts, each of which builds on the previous section. It begins by looking at organizational design questions within the basic building block of modern organizations—the specialized department. Primary issues in Part One relate to turnover and morale, personnel selection and development, performance appraisal, employee motivation, job design, career paths, and compensation. In the second part, the focus is more complex, and the material deals with multiple, interdependent departments within single-business companies. Major issues relate to coordination, interdepartmental conflict, management control systems, and organizational structure. Innovations in the structure of single-business companies are examined. In Part Three, the focus moves to another level—large multidivisional and multinational organizations, each one comprised of numerous single-business units. Primary issues at this point are coordination and control, the management of extreme diversity, cross-cultural conflict, group structures, and design problems associated with mergers and acquisitions. Part Four focuses on organizational change processes initiated to correct the types of organizational design problems dealt with in the first three parts. Important issues here relate to organizational culture, change strategies, planning change processes, questions of timing and speed, and power and influence. In Part Five, the focus shifts to the long-term horizon and to questions relating to developing an organization for long-run survival and effectiveness. The key issue here concerns the systematic development of adaptability while coping with short-run realities.

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# Chapter 2

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## Organization Design Tools

### Organizations as Social Systems

There are many ways to conceptualize the elements of organizations. Because we see the organization as a complex and open social system, we will begin by outlining a way to understand organizations as whole systems. Then, we will look at formal elements of organizational design.

Organizations are complex social systems with the following characteristics. First, they are *interdependent*. Changes in one part of the organization affect other parts. Ideally, the choices managers make about the characteristics of one element depend on the choices they make about other elements. (For example, decisions made about structuring salespersons' commissions will affect their performance.)

Second, organizations can use information received as feedback to change or to correct errors. Organizations (or managers in organizations) can choose to ignore this feedback; that does not mean they do not receive the feedback. Production people receive information about their product's quality from other areas of the organization, but they use this information as they wish.

Organizations strive to reach a balance or steady state. Changes in one area cause an organization to behave in ways that try to return it to balance. For example, a new manager in a hierarchically structured organization marked by a distrust of hourly employees decided to give increased shop-floor responsibility to a small group of employees. The group quickly becomes the most productive group in the company, breaking records for both quantity and quality produced. The organization misunderstood the experiment and only saw that the manager was giving responsibility to people who knew little about production. Top management quickly brought the organization back to equilibrium by releasing the manager and ending the experiment.

Finally, there is *no best way* of organizing to accomplish a task. This does not mean that there is no preferred way given certain circumstances. It simply means that how one organizes depends on the balance of the following elements.

## A Framework for Analyzing Organizations as Systems

Managers spend most of their time designing organizations. They determine the people, the tasks, and the structures in which people work. Most of this text focuses on analyzing, problem solving, and deciding on these design elements. However, because organizations are systems, managers must understand how the organization as a system behaves—before making design decisions. Each design decision must be made with the following concepts in mind.

Each organization has a set of **key success factors**, items that it must do well to survive. These factors include maintaining product innovation in a high-tech company, maintaining quality control in a production line, and so forth. *Context factors* have some influence on key success factors. Every organization exists in a context. This is the reality in which the organization functions. It is composed of the organization's environment, physical setting, history, political and social milieu, and strategy. These contextual factors are usually not under the organization's influence, but they are influenced by the world around it. Thus, although it is important to understand and monitor the context in which an organization operates, it is usually the last place that an individual manager concentrates his or her efforts in achieving organizational effectiveness.

Organization *design factors* are the people in the jobs, the tasks they perform, and the formal organization structure and operating system (the hierarchy of authority, the pattern of reporting relationships, the formal measurement and control system, the reward system, and the selection and recruitment systems). The arrangement of these variables in a balance has a considerable effect on an organization's effectiveness. Managers have more control over design elements than any other piece of the organization as a system.

Managers spend much of their time working with design factors: they can determine the levels of hierarchy and reporting relationships, they can set the levels of performance and measurement of performance, and managers can hire people to fill tasks that they design. It is because these design factors are often established without paying attention to the consequences on the whole system that this book focuses on organization design tools.

Every organization has a *culture*. The emergent activities, attitudes, and interactions that define the organization, on which basic decisions about organizational life are made, is the organizational culture. An organization's culture reflects the behavior patterns, values, and attitudes that organizational members use to guide organizational life.

Finally, each organization has particular **outputs**. Organizations produce goods and/or services. Organization members have opportunities for growth and development for stagnation, and they can be satisfied or dissatisfied with their work. The outputs, productivity, satisfaction, and growth and development of individual employees can be measured and used to guide other decisions.

The choices managers make about structuring design factors influence the organization's culture and outcomes. Thus, an organization is a system of variables with individual definitions that affect each other. Contextual factors affect the nature

of design factors. For example, the presence of strong affirmative-action monitoring—a contextual factor—can affect the people one hires—a design factor. If employees have the requisite skills for the work—a design factor—tasks are appropriate for their abilities and preferences, and organizational arrangements in balance—design factors—they generally will behave in ways that embody a positive value system—culture. This culture and design factor can combine to yield positive outcomes and an organization that is productive and includes people who are productive, satisfied, and have opportunities for growth and development.

There are many ways to conceptualize the formal elements of organizational design. In this book, the formal elements are: task, people, structure, measurement systems, reward systems, and selection and development systems.

## Tasks

Jobs in organizations are a set of tasks assigned to an individual. These tasks either can be clearly defined, perhaps in a detailed job description, or vague. Most organizations are comprised of many different jobs. Some of these jobs contain similar tasks that either can be difficult (staff specialists) or simple (clerical and assembly-line jobs), while others require a varied set of tasks (managerial jobs).

## People

People in organizations who fulfill specified tasks differ in their skills, interests, values, attitudes, preference for variety and structure, and desire for individual challenge. Formal structural measurements can be designed so that appropriate people are hired for appropriate jobs.

## Structure

When a manager allocates responsibilities, activities, and authority to individuals and coordinates these individuals vertically and horizontally, they define a structure. This structure is also called an organizational design. Organizational design is best understood by starting with specialization requirements at the level of individual job design—grouping individual jobs into units, these units into larger units, and so on, ultimately coordinating the activities of jobs and units through integrating mechanisms. These designs presumably exist to support organizational goals and prioritize an organization's key success factors.

The elements of structure include subunits such as departments or divisions, a management hierarchy, rules and plans, and committees and task forces. These design tools are used to influence behavior by clearly specifying what individuals are responsible for, where in the organization they should work and with whom, what authority they have, to whom they are responsible, and how to perform their tasks.

Organizational structure groups jobs into subunits such as departments, and it groups subunits into large subunits such as divisions. This grouping is usually based

on functional similarity (all marketing jobs or subunits are grouped into a marketing department). **Functional organizations** are most appropriate when the organization makes a fairly standard single product or a related line of products that are stable technologically and in a stable environment. This form offers great economies of scale, good communication among specialists, and good opportunities for professional development within each function. Product or service similarity (all jobs or subunits dealing with consulting are grouped into the consulting service department); or geographical area (all jobs or subunits dealing with Europe are grouped into the European division) are also rationales for grouping, because when environmental, product-related, or technological change occurs, more interdependence exists among the functions. Interdependence increases because it is crucial to stay informed about what happens. When more lateral communication becomes necessary, **product organizations** are formed. They can handle the increasing uncertainty, the increasing amount of information necessary, and the increasing complexity and diversity. While most organizations place a single job into one subunit, so-called **matrix organizations** group individual jobs into two or more subunits (e.g., a job may be in both the marketing and consulting services departments).

Matrix organizations coordinate different functional specialties while preserving the functional organization. This design enables them to identify and concentrate on the changes in markets, customers, technology, information, and therefore quickly respond to changes.

**Divisionalized organizations** produce a variety of products and service a number of markets and areas. Each division is a relatively autonomous business unit with most functions reporting to a general manager who has profit and loss responsibility. The key to establishing a divisional structure is that business volume must be large enough to support the functional organization while maintaining efficient economies of scale. While senior corporate managers set the long-run strategic direction of the firm and make resource-allocation decisions assisted by corporate staffs, separate divisions operate differently. Some divisions are independent, sending in monthly reports and having infrequent reviews. Others have extensive senior corporate involvement. The degree of involvement depends on performance, culture, and individual managers. Divisions can be more responsive to environments and markets, but they engender losses in certain economies of scale.

Closely related to such groupings is a management hierarchy that specifies reporting relationships and distributes formal authority for people and decisions to managers throughout the organization. Typically, the head of an organization has the most formal authority. The people who report to him or her, some or all of whom are in charge of the organization's largest subunits, are given less formal authority, and so on, down through the organization. Organizations are *centralized* if the formal authority is heavily concentrated in the hands of a few top people. If authority is widely distributed throughout the organization, the organization is *decentralized*. Hierarchies are sometimes described as "tall" and "flat," depending on the number of people reporting to each manager. A small span of control (few people reporting to each manager) creates relatively tall structures, and vice versa.