Chapter 7: Creating a Flexible Organization
GBS151, Class 12191
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Notes Compiled by Nicolas C. Rouse, Instructor, Phoenix College

Chapter Objectives

1. Understand what an organization is and identify its characteristics.
2. Explain why job specialization is important.
3. Identify the various bases for departmentalization.
4. Explain how decentralization follows from delegation.
5. Understand how the span of management describes an organization.
6. Describe the four basic forms of organizational structure.
7. Describe the effects of corporate culture.
8. Understand how committees and task forces are used.
9. Explain the functions of the informal organization and the grapevine in a business.

1. What is an Organization?
   • An organization is a group of two or more people working together to achieve a common set of goals. A neighborhood dry cleaner owned and operated by a husband and wife team is an organization. So are IBM, Rubbermaid, and The Home Depot.
   - Developing Organization Charts. An organization chart is a diagram that represents the positions and relationships within an organization—that is, it reveals the company’s organizational structure. (See Figure 7.1.)
     - The chain of command is the line of authority that extends from the highest to the lowest levels of the organization.
     - In an organization chart, connections shown as broken lines are not part of the direct chain of command; these people hold advisory, or staff, positions.
     - Most smaller organizations find organization charts useful. For two reasons, however, many large organizations do not maintain complete, detailed charts.
       - It is difficult to chart accurately even a few dozen positions, much less the thousands that characterize larger firms.
       - Larger organizations are almost always changing.
   - Five Steps for Organizing a Business
     - Job design. Divide the work that is to be done by the entire organization into separate parts, and assign those parts to positions within the organization.
     - Departmentalization. Group the various positions into manageable units, or departments.
     - Delegation. Distribute responsibility and authority within the organization.
     - Span of management. Determine the number of subordinates who will report to each manager.
     - Chain of command. Establish the organization’s chain of command by designating the positions with direct authority and those that are support positions.

2. Job Design
   • Job Specialization. Job specialization is the separation of all organizational activities into distinct tasks and the assignment of different tasks to different people.
   • The Rationale for Specialization. There are several reasons why at least some specialization is needed.
     - The “job” of most organizations is simply too large for one person to handle.
     - When a worker has to learn only a specific, highly specialized task, that individual should be able to learn to do it very efficiently.
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- The worker who is doing the same job over and over does not lose time changing from one operation to another.
- The more specialized the job, the easier it may be to design specialized equipment for those who do it.
- The more specialized the job, the easier is the job training.

- **Alternatives to Job Specialization.** Specialization can also have some negative consequences, most notably employee boredom and dissatisfaction. There are possible solutions to the problems caused by job specialization.
  - **Job rotation** is the systematic shifting of employees from one job to another.
  - It is also possible to use job enlargement and job enrichment—These topics, along with other methods used to motivate employees, are discussed in Chapter 11.

3. Departmentalization

- **Departmentalization** is the process of grouping jobs into manageable units. Common bases of departmentalization are:
  - **By Function.** Departmentalization by function groups jobs that relate to the same organizational activity.
    - Most smaller and newer organizations base their departmentalization on function.
    - The disadvantages of this method are that it can lead to slow decision making and that it tends to emphasize the department rather than the organization as a whole.
  - **By Product.** Departmentalization by product groups all activities related to a particular good or service.
  - **By Location.** Departmentalization by location groups all activities according to the defined geographic area in which they are performed.
  - **By Customer.** Departmentalization by customer groups all activities according to the needs of various customer populations.
  - **Combinations of Bases.** Few organizations exhibit only one departmentalization base. Many firms use several different bases within a single organization. (See Figure 7.2.)

4. Delegation, Decentralization, and Centralization

- **Delegation** assigns part of a manager’s work and power to other workers.
  - **Steps in Delegation.** Three steps are generally involved in the delegation process. (See Figure 7.3.)
    - The manager must assign responsibility. **Responsibility** is the duty to do a job or perform a task.
    - The manager must grant authority. **Authority** is the power, within the organization, to accomplish an assigned job or task.
    - The manager must create accountability. **Accountability** is the obligation of a worker to accomplish an assigned job or task. Accountability is created, but it cannot be delegated.
  - **Barriers to Delegation.** For several reasons, managers may be unwilling to delegate work.
    - Many managers are reluctant to delegate because they want to be sure that the work gets done.
    - A manager fears that a subordinate will do the work so well that he or she will attract the notice of top management and become a threat to the manager.
• Some managers are so disorganized that they simply are not able to plan and assign work effectively.

• Decentralization of Authority. The pattern of delegation throughout an organization determines the extent to which that organization is decentralized or centralized.
  o An organization in which management consciously attempts to spread authority widely in the lower organization levels is said to be a decentralized organization.
  o An organization that systematically works to concentrate authority at the upper levels is said to be a centralized organization.
  o A variety of factors can influence the extent to which a firm is decentralized.
    ▪ The external environment in which the firm operates.
    ▪ The nature of the decision to be made. The riskier or the more important the decision, the greater the tendency to centralize decision making.
    ▪ The ability of lower-level managers to make decisions.
    ▪ A firm that has traditionally practiced centralization is likely to maintain that centralization in the future, and vice versa.
  o In principle, neither decentralization nor centralization is right or wrong. What works for one organization may or may not work for another.

5. The Span of Management
• The fourth major step of organizing a business is establishing span of management (or span of control), which is the number of workers who report directly to one manager.
  o Wide and Narrow Spans of Control. A wide span of management exists when a manager has a large number of subordinates. A narrow span exists when the manager has only a few subordinates. Several factors determine the span that is better for a particular manager.
  o Organizational Height. Organizational height is the number of layers, or levels, of management in a firm. (See Figure 7.4.)
    ▪ The span of management plays a direct role in determining an organization’s height. (See Figure 7.4.)
      ▪ If spans of management are wider, fewer levels are needed, and the organization is flat.
      ▪ If spans of management are narrow, more levels are needed, and the resulting organization is tall.
    ▪ In a taller organization, administrative costs are higher because more managers are needed. Communication among levels may become distorted.
    ▪ All managers in a flat organization may have to perform more administrative duties because there are fewer managers.

6. Forms of Organizational Structure
• The four basic forms of organizational structure are line, line-and-staff, matrix, and network.
  o The Line Structure. An organizational structure in which the chain of command goes directly from person to person throughout the organization is called line structure.
    ▪ Managers within a line structure, called line managers, make decision and give orders to subordinates to achieve the goals of the organization.
    ▪ A line structure allows line managers to make decisions quickly with direct accountability because the decision-maker only reports to one supervisor.
The downside of a line structure is that line managers are responsible for many activities and therefore must have a wide range of knowledge about all of them. Consequently, line structures are more popular in small organizations rather than in medium and large size organizations where activities and issues are more numerous and more complex.

- **The Line-and-Staff Structure.** A line-and-staff structure utilizes the chain of command from a line structure, but also provides line managers with specialists, called **staff managers**.
  - Staff managers provide support, advice, and expertise to line managers. They are not part of the chain of command like line managers are, but they do have authority over their assistants.
  - Both line and staff managers are needed for effective management, but the two positions differ in important ways.
    - Line managers have line authority, which means that they can make decisions and issue directives relating to the organization’s goals.
    - Staff managers have advisory and functional authority which means they can consult with the line manager and only make decisions and issue directives about their areas of expertise.
  - Conflict between line managers and staff managers can occur if line managers perceive that staff managers are a threat to their authority or if staff managers perceive that their recommendations are not being adopted by line management. There are several ways to minimize this conflict.
    - Integrate line and staff managers into one team.
    - Ensure that the areas of responsibility of line and staff managers are clearly defined.
    - Hold line and staff managers accountable for the results of their activities.

- **The Matrix Structure.** The matrix structure combines vertical and horizontal lines of authority.
  - The matrix structure occurs when product departmentalization is superimposed on a functionally departmentalized organization.
  - Authority flows both down and across.
  - In a matrix structure, people from different departments are assigned to a group, called a cross-functional team, to work on a new project.
    - Frequently, cross-functional teams are charged with developing new products.
    - The project manager is in charge of the team.
    - Cross-functional teams may be temporary or permanent.
  - Figure 7.6 illustrates a typical matrix organization.
  - The matrix organization has several advantages.
    - Added flexibility is probably the most obvious advantage.
    - This structure can increase productivity, raise morale, and nurture creativity and innovation.
    - Employees experience personal development by doing a variety of jobs.
  - The matrix organization also has several disadvantages.
    - Having employees report to more than one supervisor can cause confusion about who has authority in various situations.
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- Like committees, teams may take longer to resolve problems and issues than individuals working alone.
- Because more managers and support staff may be needed, a matrix structure may be more expensive to maintain than other forms of organizational structure.

- The Network Structure. In a network structure (sometimes called a virtual organization), administration is the primary function performed, and other functions such as engineering, production, marketing, and finance are contracted out.
  - This type of organization has only a few permanent employees consisting of top management and a few hourly clerical workers.
  - Leased equipment and facilities are temporary.
  - There is rather limited formal structure.
  - An obvious advantage is the flexibility that allows an organization to quickly adjust to changes.
  - Some of the challenges faced by managers include the following:
    - Controlling the quality of work performed by other organizations
    - Low morale and high turnover among hourly workers
    - Vulnerability associated with relying on outside contractors

7. Corporate Culture

- Corporate Culture. A corporate culture is generally defined as the inner rites, rituals, heroes, and values of a firm.
  - Corporate culture is generally thought to have a very strong influence on a firm’s performance over time.
  - Goffee and Jones have identified four types of corporate cultures. (See Figure 7.7.)
    - Networked culture
    - Mercenary culture
    - Fragmented culture
    - Communal culture
  - Some experts believe that cultural change is needed when the company’s environment is changing significantly, when the industry is becoming more competitive, when the company’s performance is mediocre, when the company is growing rapidly, or when the company is about to become a truly large organization.

8. Committees and Task Forces

- Several types of committees can be used within an organizational structure.
  - An ad hoc committee is created for a specific short-term purpose, such as reviewing the firm’s employee benefits plan.
  - A standing committee is a relatively permanent committee charged with performing a recurring task.
  - A task force is a committee established to investigate a major problem or pending decision.
- Committees offer some advantages over individual action.
  - Several members are able to bring more information and knowledge to the task at hand.
  - Committees tend to make more accurate decisions and to transmit their results through the organization more effectively.
• There are also disadvantages to using committees.
  o Committee deliberations take much longer than individual action.
  o Unnecessary compromise may take place within the committee.

9. The Informal Organization and the Grapevine
  o Informal organization describes the pattern of behavior and interaction that stems from personal rather than official relationships.
    ▪ Informal Groups. An informal group is created by the group members themselves to accomplish goals that may or may not be relevant to the organization.
      • Workers may create an informal group to go bowling, form a union, get a particular manager fired or transferred, or share lunch.
      • Informal groups can be powerful forces in organizations. Managers who fight the informal organization have a major obstacle to overcome.
    ▪ The Grapevine. The grapevine is the informal communications network within an organization.
      • The grapevine is completely separate from—and sometimes much faster than—the organization’s formal channels of communication.
      • Managers would make a mistake if they tried to eliminate the grapevine. A more rational approach is to recognize the existence of the grapevine as a part (though an unofficial part) of the organization.