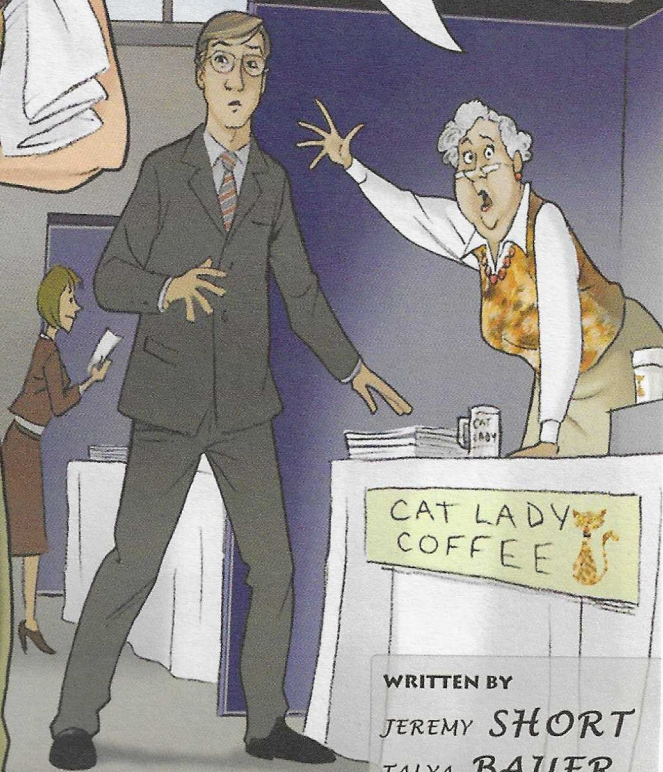


JOB FAIR



Excuse me young man! Those aren't free!



CHAPTER 5: CHARTING THE FUTURE-ORGANIZATIONAL STRUCTURE AND FIT

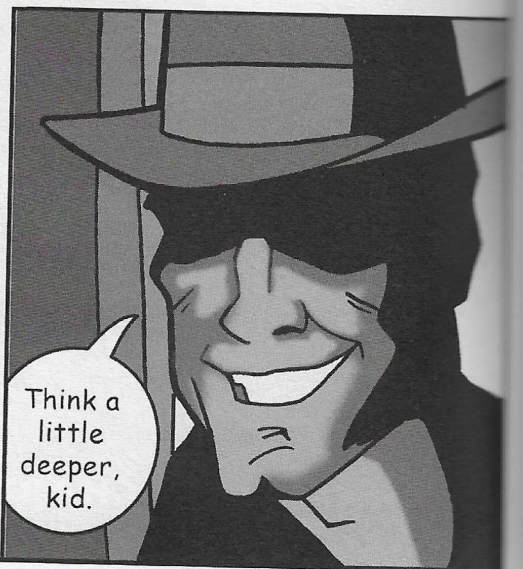
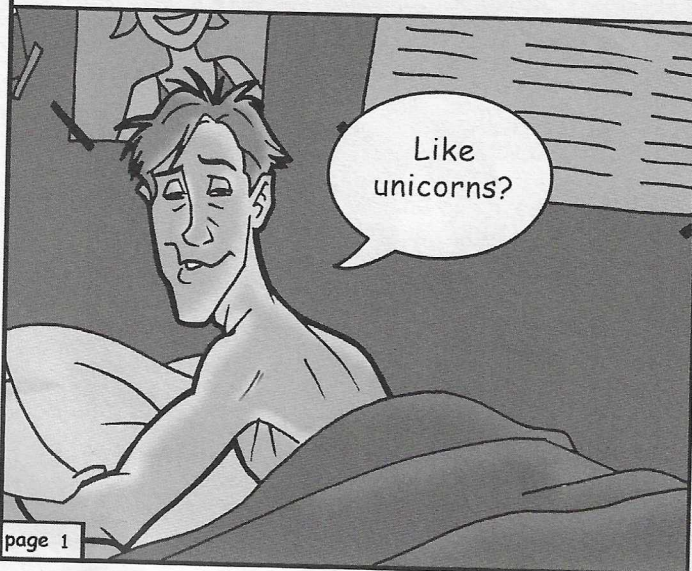
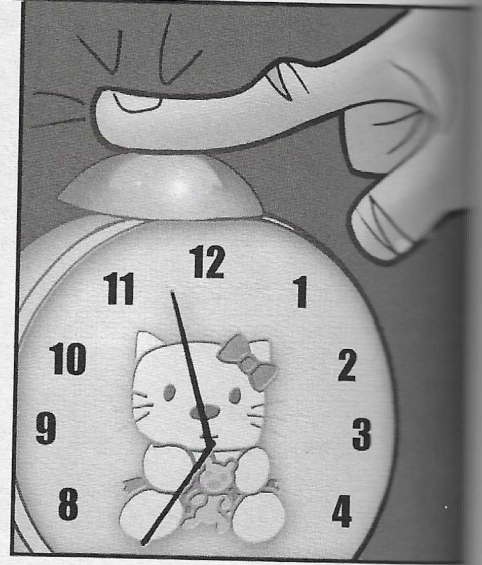
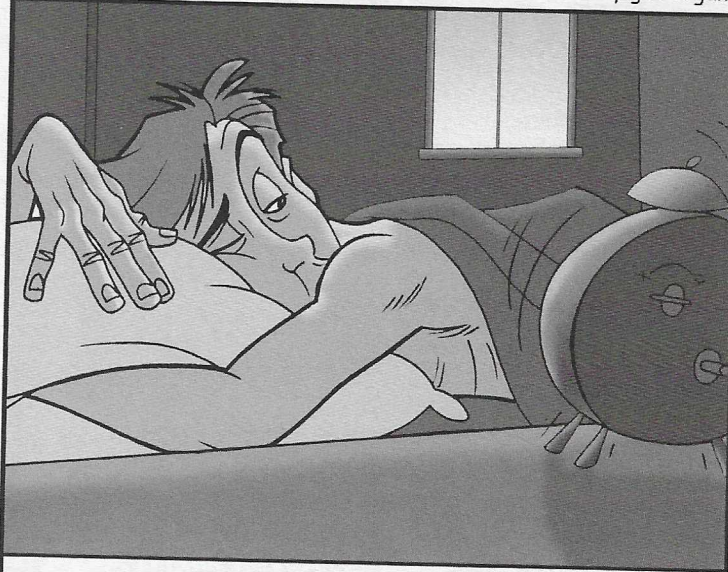
WRITTEN BY
JEREMY SHORT
TALYA BAUER
DAVE KETCHEN

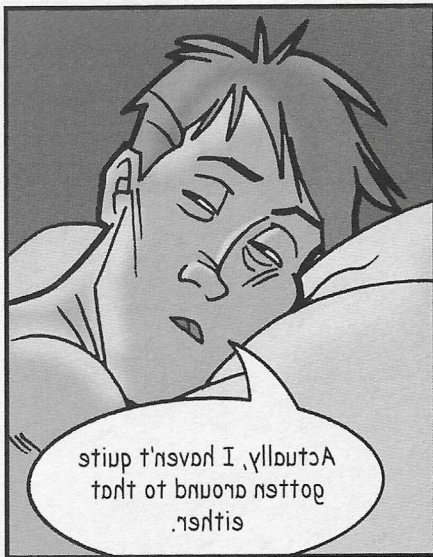
ILLUSTRATED BY

ILLUSTRATED BY
JEREMY SHORT



Welcome back, dear reader, to a world where young Atlas Black is about to receive a startling wake-up call. In our last episode, Atlas found that hiring employees for his emerging restaurant is much harder than he thought it would be. If he is to be successful in starting his entrepreneurial endeavor, he will need to break with his old habits and finally get organized.





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t'art ot bnuord to that
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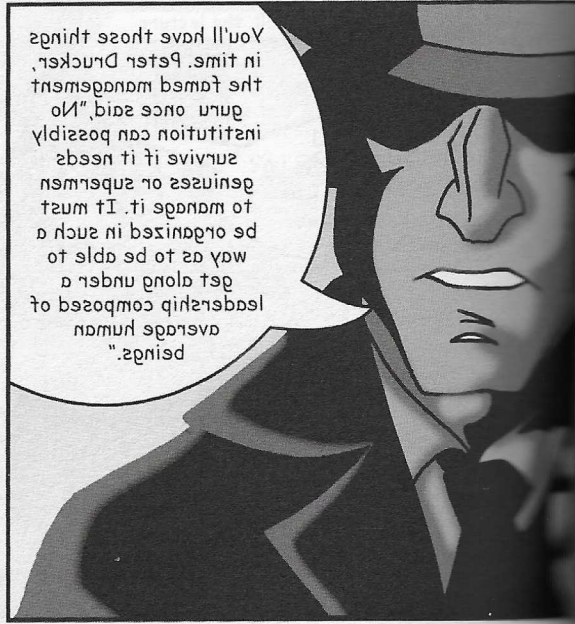


Have you come up with
a not-so-bizness
plan yet?

I get it like I
restaurant. But I couldn't
even hire a single employee!
I don't have any cash, and I
still haven't come up with a
solid business plan



How am I going to do
all this?



You'll have those things
in time. Peter Drucker,
the famed management
guru once said, "No
institution can possibly
survive if it needs
geniuses or supermen
to manage it. It must
be organized in such a
way as to be able to
get along under a
leadership composed of
average human
beings."

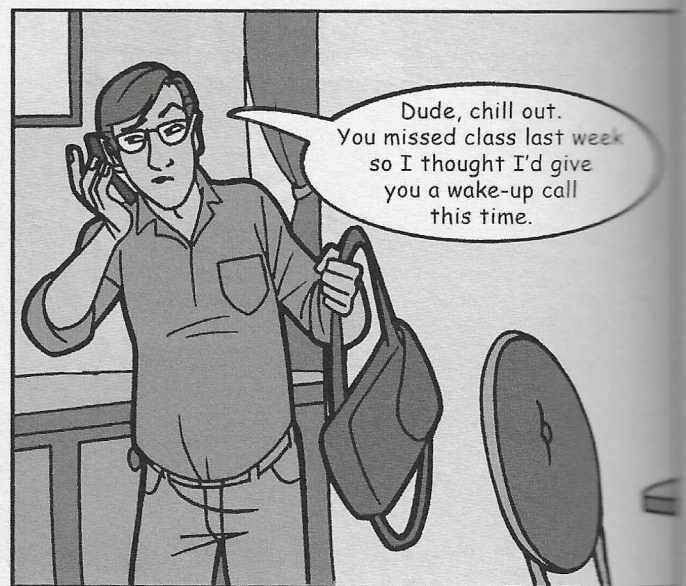
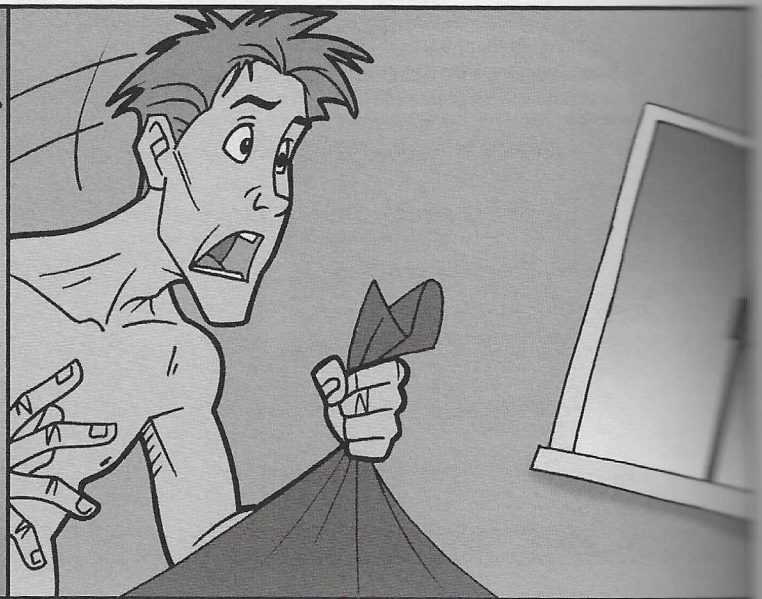
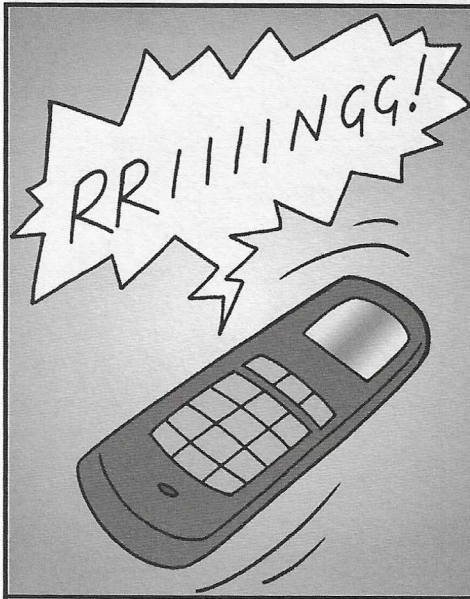


And that is
why you fail.

But I just don't
believe I can do
it!

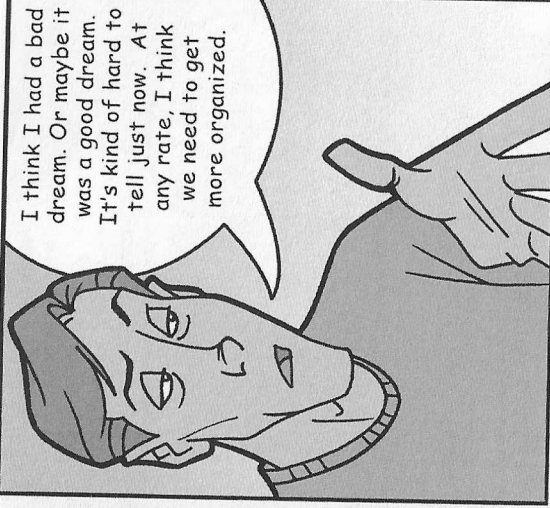


You need to
get
organized,
and get to
work.





So, you seemed a little jittery when I called.



I think I had a bad dream. Or maybe it was a good dream. It's kind of hard to tell just now. At any rate, I think we need to get more organized.

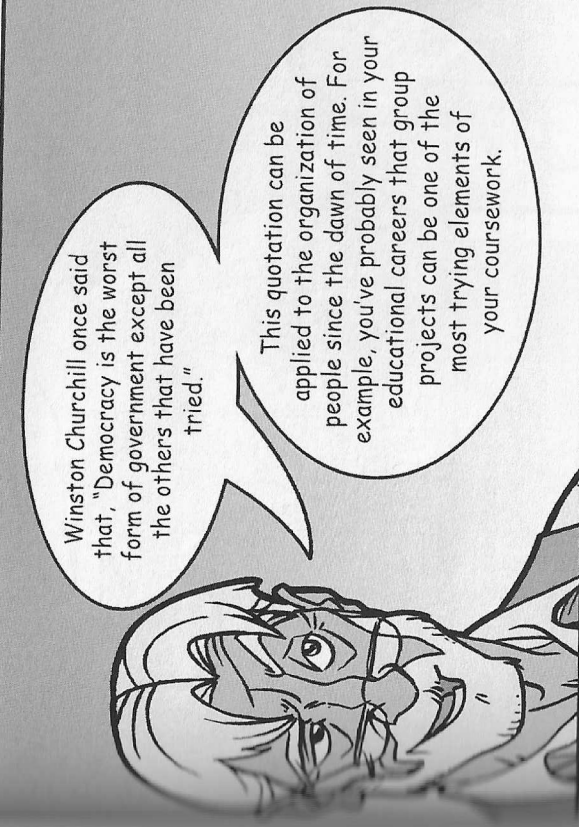


Well, the lecture today is supposed to be about organization so try not to fall back asleep this time.



Duly noted!

Ahem!

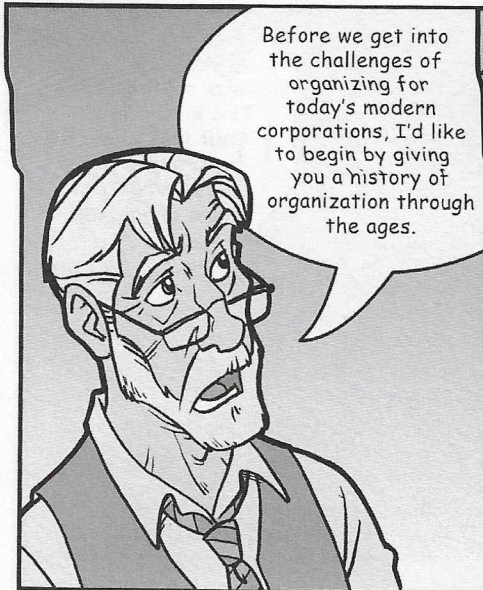


Winston Churchill once said that, "Democracy is the worst form of government except all the others that have been tried."

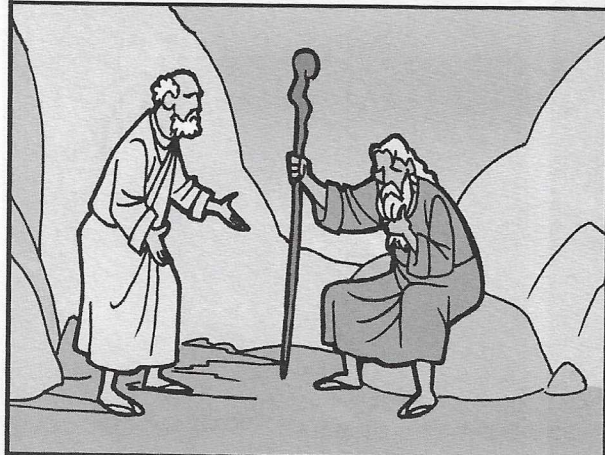
This quotation can be applied to the organization of people since the dawn of time. For example, you've probably seen in your educational careers that group projects can be one of the most trying elements of your coursework.

Imagine the potential for frustration of organizations with thousands of employees scattered across different locations and maybe even different time zones.





One of the oldest recorded stories relevant to modern organizations comes from biblical times. After the Israelites were found himself as the sole judge of the entire nation, a daunting task since estimates suggest the population exceeded one million people at that time.



Moses' father-in-law Jethro noticed the problem occurring with Moses being the sole authority on all matters and he warned Moses that he would wear himself out if he tried to handle such a heavy load alone.



Jethro offered Moses some practical advice. He told Moses that he should act as a representative of the people. He should teach them decrees and laws, and make an effort to minimize troubles and act as an example to demonstrate how the people should live and the laws they are to perform.



These men would serve as judges for the people at all times, but the difficult cases would be brought to Moses.

This is perhaps the first recorded example of a clear hierarchy of authority - an arrangement of individuals based on rank.



A similar idea is used today in our justice system, where there are lower courts for easy-to-solve cases, and the Supreme Court only handles the most difficult cases.

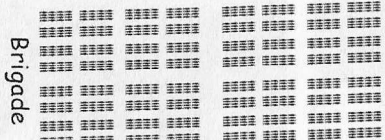
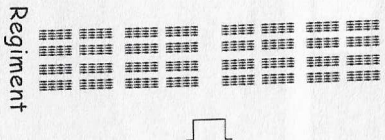
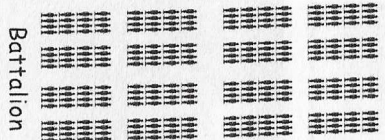
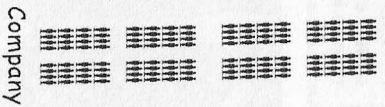
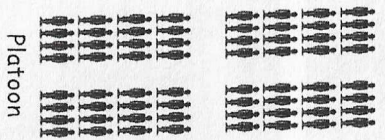
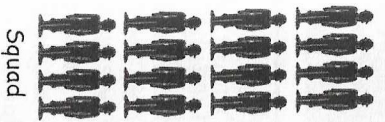


Of course, in modern organizations, hierarchy is still an important part of understanding an organization's reporting structure. This is usually done through a formal organizational chart that outlines to whom each person reports.

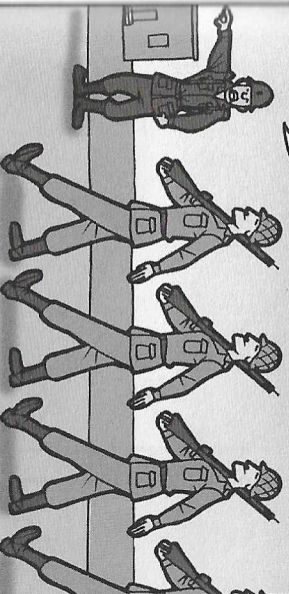
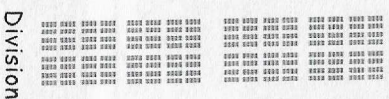
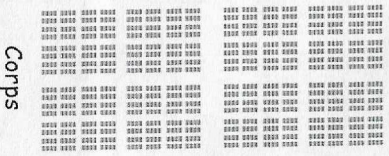
For example, in most armies, a span of control of eight to 16 individuals makes up a squad. Note that this number is a very similar span to that used by Moses thousands of years ago.



Alright you grunts! Let's move out!



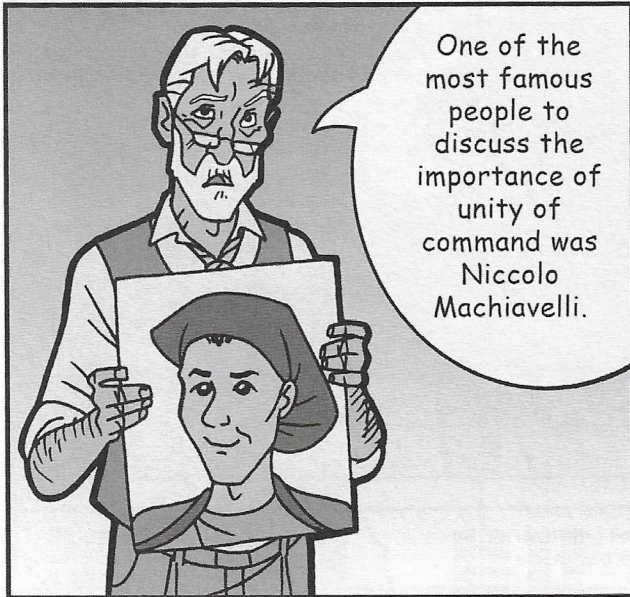
Two to four squads makes up a platoon. Two or more platoons makes up a company. Two or more companies makes up a battalion. Two or more battalions makes up regiment. Two or more regiments make up a brigade. Two or more brigades make up a division. Two or more divisions makes up a corps. Two or more corps makes up an army.



Hut two, three, four
No napping anymore!



A reason for creating such hierarchies is to clearly understand who is in charge. A key idea in traditional hierarchies such as in the military is that subordinates - either military personnel or employees of any organization - should only report to one manager. This concept is known as unity of command.



One of the most famous people to discuss the importance of unity of command was Niccolo Machiavelli.

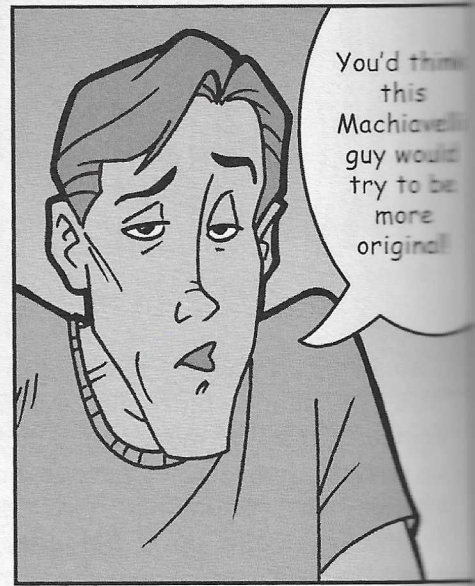


His book *The Prince* was written in the early 1500s as a practical guide to politics. It was controversial because of his "ends justifies the means" mentality that is often viewed as mercenary and coldhearted. For example, Machiavelli argued that love and fear cannot exist together, and it is better to be feared than to be loved.

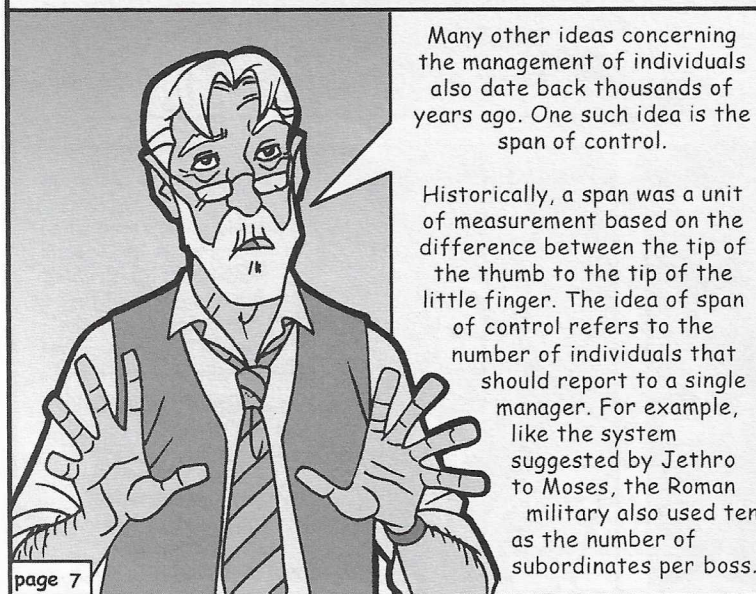


Wasn't that "better to be feared" line in one of the *Godfather* movies?

Yup! It was in *Iron Man*, too.



You'd think this Machiavelli guy would try to be more original!

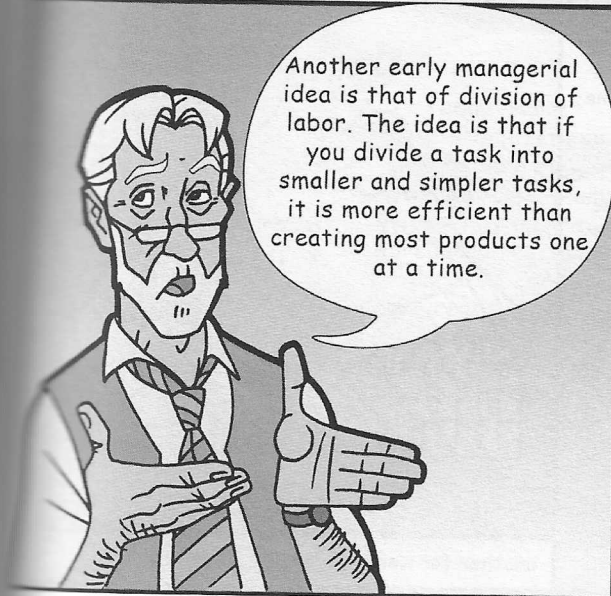


Many other ideas concerning the management of individuals also date back thousands of years ago. One such idea is the span of control.

Historically, a span was a unit of measurement based on the difference between the tip of the thumb to the tip of the little finger. The idea of span of control refers to the number of individuals that should report to a single manager. For example, like the system suggested by Jethro to Moses, the Roman military also used ten as the number of subordinates per boss.

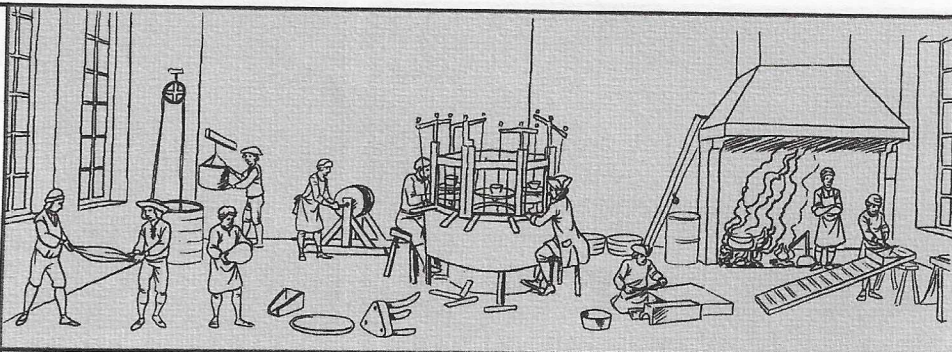


I wouldn't want to play *Trivial Pursuit* with this guy!

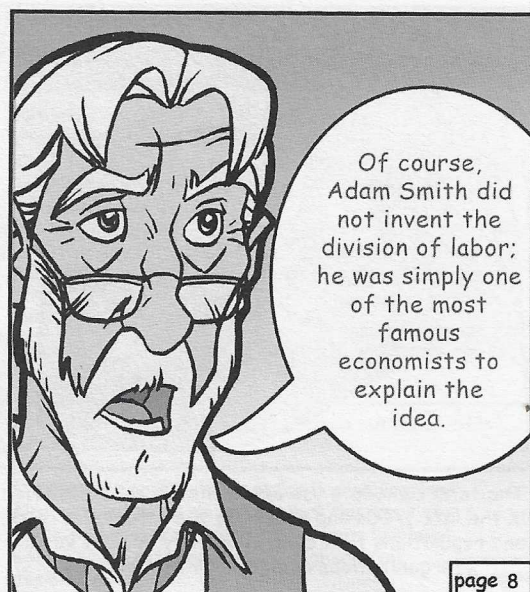
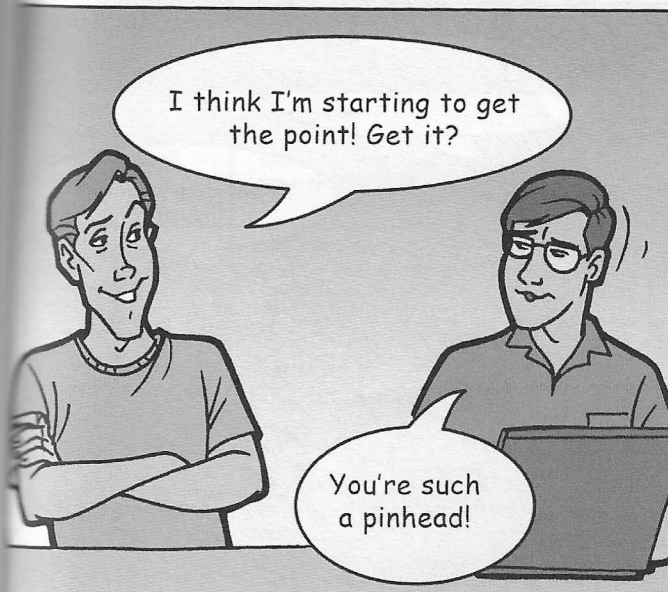


Many folks associate this with Ford's early automobile mass production and the industrial revolution, but this idea is actually much older.

Back in 1776 in Adam Smith's book *The Wealth of Nations*, he discusses the optimal organization of a pin factory. If a single worker performed all the steps himself when making a pin, he could only make about 20 pins a day.



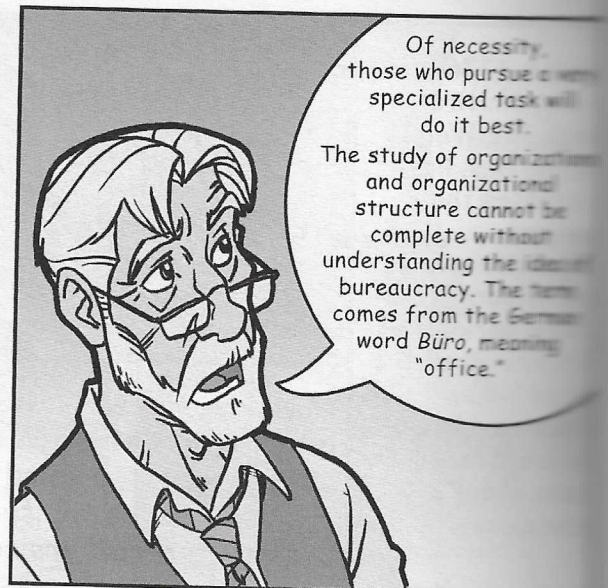
However, the work would go much faster if jobs were divided into multiple steps where one man draws out the wire, another straightens it, a third cuts it, a fourth points it, and a fifth grinds it at the top for receiving the head. Under this system, ten workers could make 48,000 pins a day.



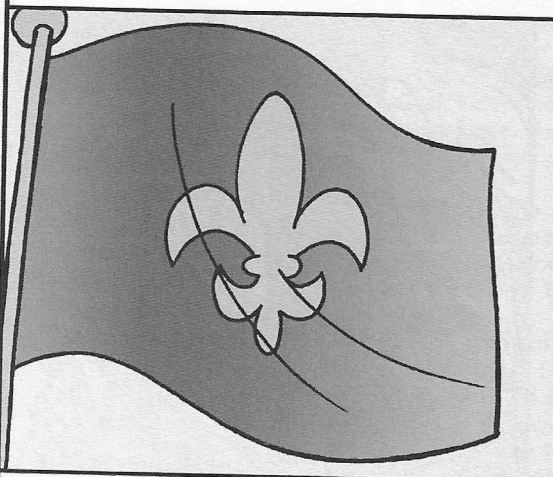
Early ideas of the division of labor date back to Xenophon, a Greek writer about 400 B.C. who wrote about division of labor for making shoes. Xenophon argued that it is impossible for a man of many trades to do all of them well. In large cities, one man makes shoes for men,



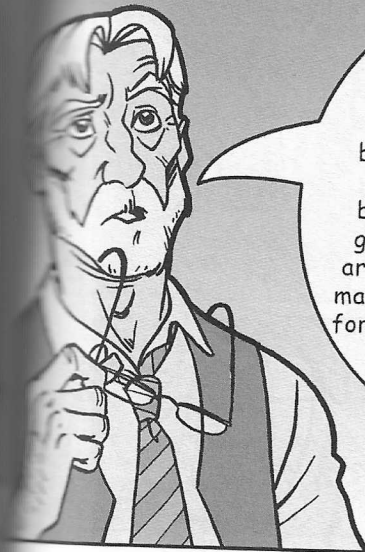
another for women,



There are even places where one man earns a living just by mending shoes, another by cutting them out, another just by sewing the uppers together, while there is another who performs none of these operations but assembles the parts.



The term came into use after the French Revolution in the late 1700s and refers to the structure, rules, and regulations that control activity in most large organizations and government agencies.



Today, many large organizations are seen as bureaucracies. Many universities are bureaucracies. Many government agencies are bureaucracies, and many medium and larger for-profit organizations are extremely bureaucratic.



I need to register.

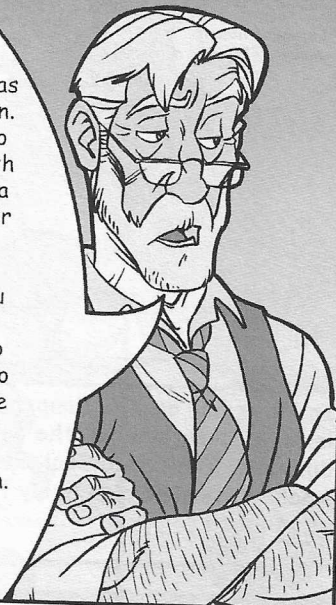
You'll need to go to the office across campus for that.

CLOSED

But they told me to come here!

Bummer.

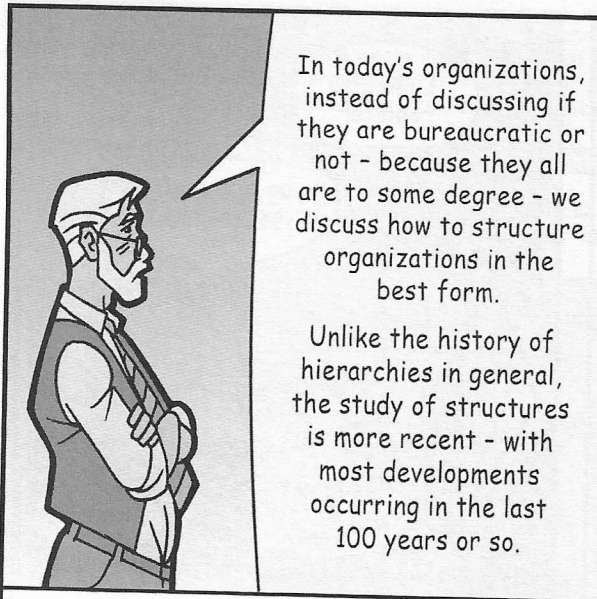
In today's organization, the "bureaucracy" has a negative connotation. For many, it brings to mind an encounter with employees who claim a certain task isn't their job or other inefficiencies. As students, many of you have felt the pain of going from building to building in an effort to do something as simple as registering for classes or trying to complete a degree plan. So, passing the buck is an issue in many bureaucracies.



Bureaucracy was not always seen in such a negative light. In the early 1900s, Max Weber, a German sociologist, developed the concept of an ideal bureaucracy. In Weber's day, like today, many organizations were run in a dubious manner. Employees could be hired and fired at any time, and even talented employees might not receive a deserved promotion because such positions were often saved for the family of owners or other top managers. Weber hoped that bureaucracies could be used to provide a more ideal organization of employees within large organizations. The following slide outlines key elements of Weber's ideal bureaucracy, as well as some problems that occur from bureaucratic structures.

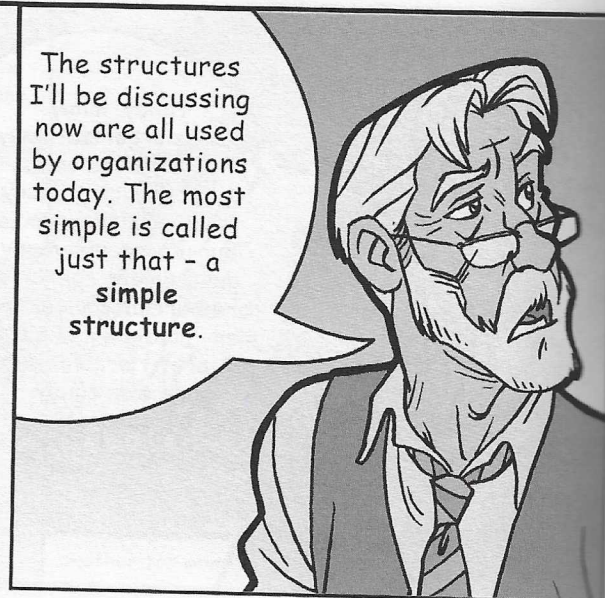
Max Weber's Ideal Bureaucracy

Key Elements	Description	Potential Problems for Modern Organizations
Division of Labor	Tasks are specialized into different departments within an organization.	Individuals might act as if a certain task isn't their job even when they have the ability to help customers, suppliers, or other employees.
Hierarchy of Authority	There is a unity of command where it is clear to whom each employee reports.	Individuals may not be empowered to make decisions, and decision making can take longer if permission from the next higher level in the hierarchy is always needed.
Formal Selection	Employees are hired based on their qualifications.	Generally a good thing, this could increase the time it takes to process qualified applicants.
Rules and Regulations	Formal rules govern the actions of individuals in the organization.	Many organizations operate based on outdated rules and regulations.
Rationality	Logical decisions are made where information flows down from the CEO or owner to lower levels in the organization and information flows upward to top managers.	Rationality doesn't always occur in organizations. Many subordinates do not support the ideas of CEOs, and important information from low-level workers may not always reach higher-level decision makers.



In today's organizations, instead of discussing if they are bureaucratic or not - because they all are to some degree - we discuss how to structure organizations in the best form.

Unlike the history of hierarchies in general, the study of structures is more recent - with most developments occurring in the last 100 years or so.



The structures I'll be discussing now are all used by organizations today. The most simple is called just that - a **simple structure**.



Welcome to the Volk House B&B. I'm the owner, manager, cook, cleaner, and once a year I'm the accountant.

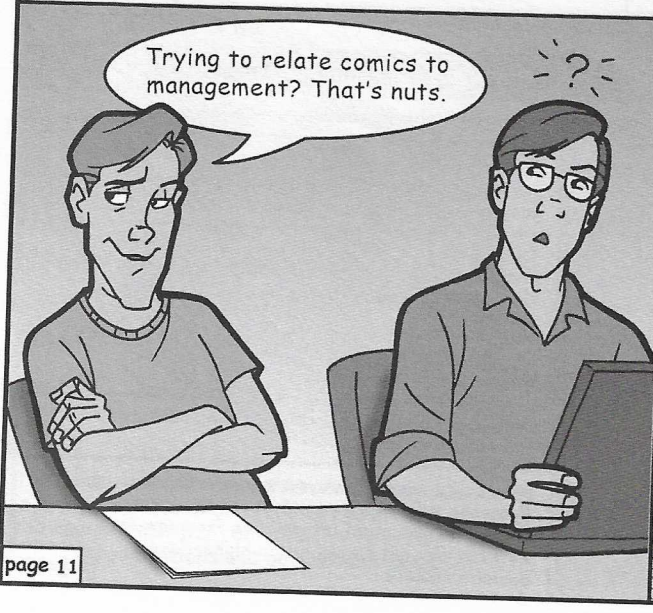
In small mom-and-pop-operations, such as perhaps a bed and breakfast or small clothing boutique, a single manager performs most functions.



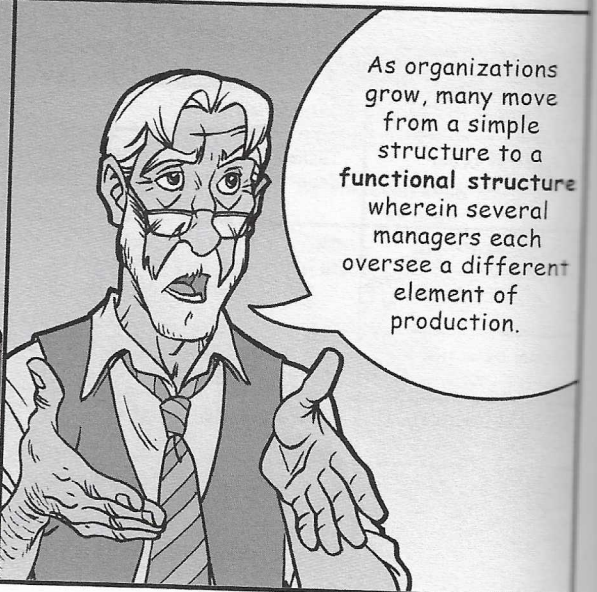
I wonder how to make a Flaming Moe.

I wonder if we should have a bar.

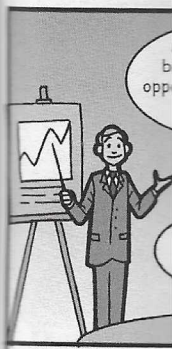
In Moe's bar on *The Simpsons*, for example, Moe is seen performing all the operations of the business. The Comic Book Guy operating his own small shop would also likely follow a simple structure.



Trying to relate comics to management? That's nuts.



As organizations grow, many move from a simple structure to a **functional structure** wherein several managers each oversee a different element of production.



So, you might h
that handles ac
that does mark

In the TV sho
Pennsylvania,
resource man

SALE



Jim Halpert



Phyllis Lapin



So, you might have a department that handles accounting and one that does marketing and sales.



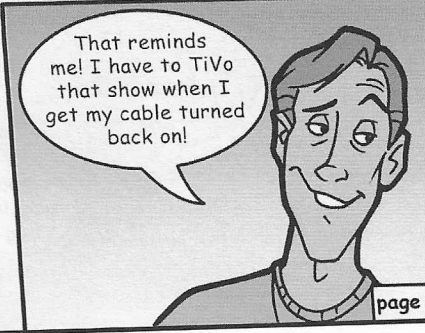
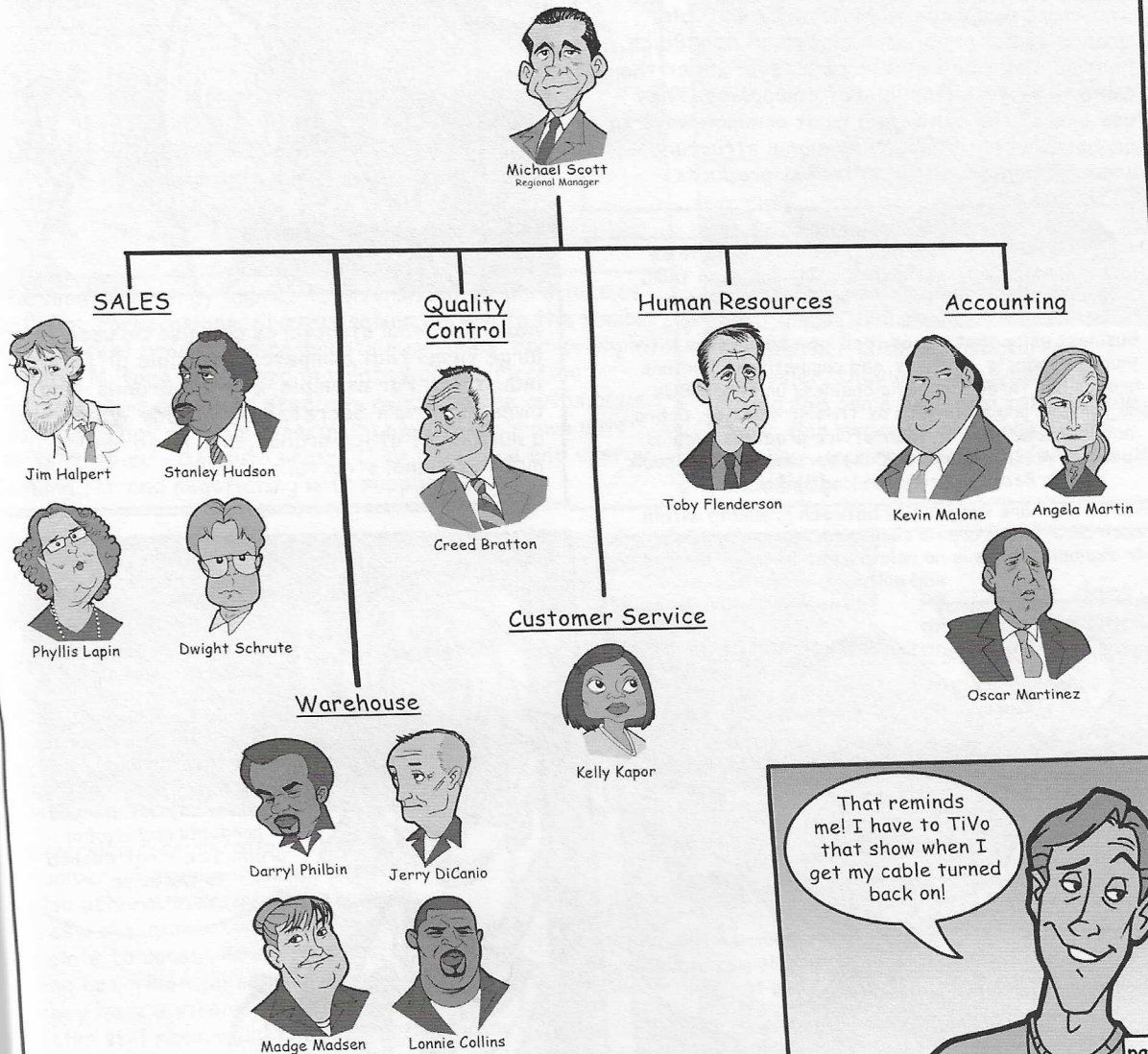
And one for human resource management.

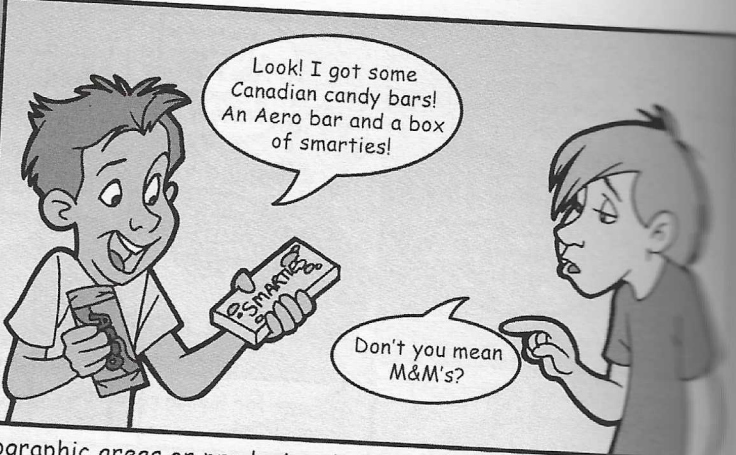


A functional structure is often used to organize a company's individual locations, such as the All-American Burger down the street.

In the TV show *The Office*, you see an example of a functional structure at their Scranton, Pennsylvania, branch where Dwight, Jim, and others sell paper, another person handles human resource management, and others manage the books.

Dunder Mifflin (Functional Structure)



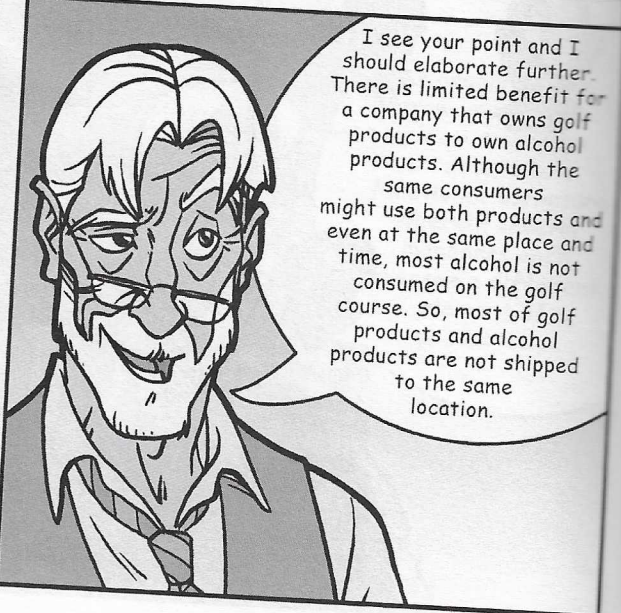


As organizations grow into different geographic areas or producing different products, they adopt a multidivisional structure. Elements of a multidivisional structure organized by geography are used by Nestlé. For example, Butterfinger is largely marketed to the United States, since peanut butter is a common element in candy in the states, but less so in Europe. Likewise, some Nestlé products like the Aero candy bar are not widely available in the United States. Extremely large corporations using this multidivisional structure tend to centralize certain functions such as marketing and human resources. One of the earliest companies to adopt this structure was General Motors, as multiple brands of automobiles such as Cadillac, Buick, Pontiac, and Chevrolet were all sold under the General Motors umbrella of companies. They use one of the other two most common ways to organize using the multidivisional structure - organization based on different products.

In general, multidivisional structures tend to be organized by product or geographical area. A third option appears for corporations such as Fortune Brands who use a structure based on strategic business units that act as their own businesses with unique products, markets, and competitors. Fortune brands has three strategic business units or SBUs - one for golf products such as Titleist, Footjoy, Cobra, and Pinnacle; one for their office products such as Moen and MasterBrand; and one for their spirits such as Jim Beam, Courvoisier, and Maker's Mark. While there are similarities between products within each SBU, there are no similarities between SBUs. For example, there is no relationship between alcohol and golf.



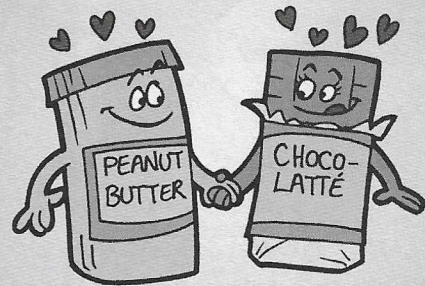
Multidivisional structures can also be used for large firms that compete in multiple different industries. For example, Limited Brands, who owns Victoria's Secret, Bath & Body Works, and a number of other brands, also has a multidivisional structure.



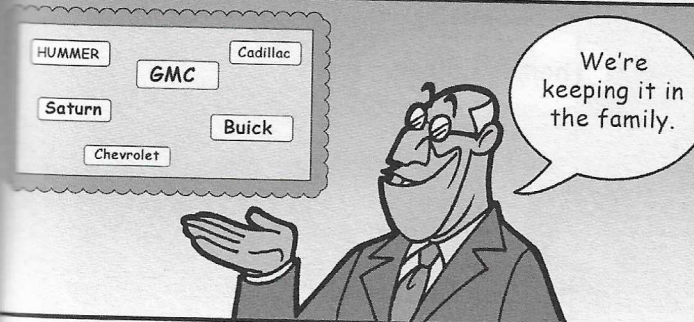
I see your point and I should elaborate further. There is limited benefit for a company that owns golf products to own alcohol products. Although the same consumers might use both products and even at the same place and time, most alcohol is not consumed on the golf course. So, most of golf products and alcohol products are not shipped to the same location.



When CEOs are considering making acquisitions or mergers, they often try to incorporate the idea of synergy. Synergy is the hope that two companies together will produce innovations, cost savings, or economies of scale that would not be possible if the two companies were not combined.

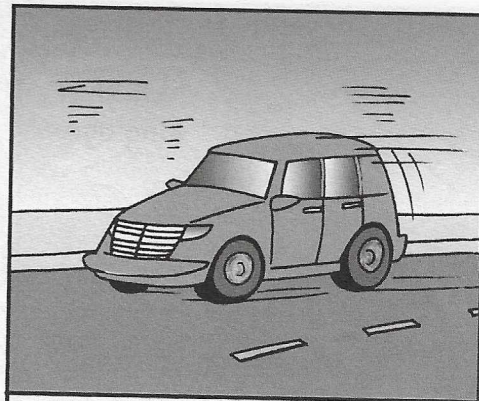


I think a good example of the concept of synergy is found in the Reese's Peanut Butter Cup. Chocolate and peanut butter alone are one thing, but combined their powers result in a mighty tasty snack.

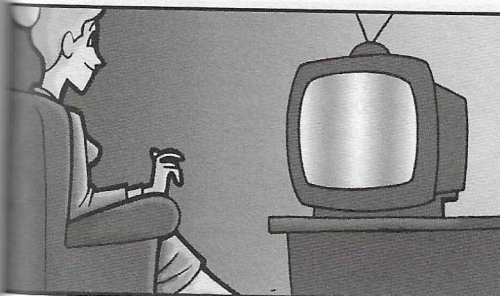


We're keeping it in the family.

The idea of synergy applies to diversified corporations as well. For corporations, diversification refers to the number of different products a corporation manages. For example, General Motors is engaged in related diversification because their products generally relate to the automobile industry. They achieve synergy by owning their own auto parts supplier - GM auto parts. They save time and energy looking for and negotiating with suppliers.



At another auto manufacturer, Chrysler, they achieve synergy by using the same platform for multiple cars. For example, the Chrysler PT Cruiser uses the same platform as the Dodge Neon.



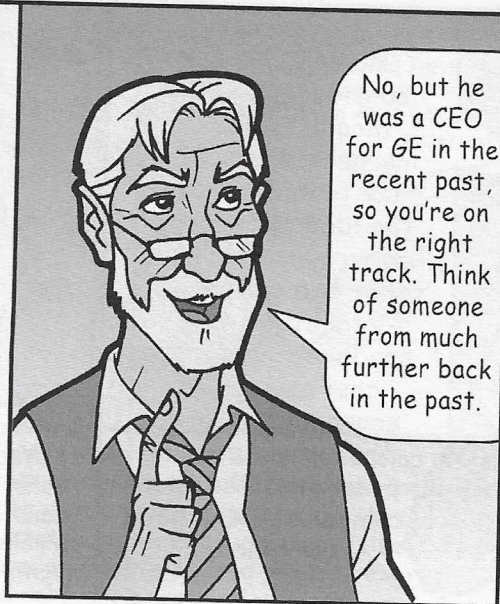
Diversified corporations that manage a number of more unrelated products can also achieve synergy. For example, General Electric owns companies that relate to consumer electronics, aircraft engines, financial services, and NBC. Yet, they have a strong corporate brand. Many folks still remember their advertisement that "GE brings good things to life."



By the way, does anyone know who GE's first CEO was? I ask this question every semester and was surprised to find that it was the *Who Wants to be a Millionaire* million dollar question one night. The participant, by the way, missed the question. Any thoughts?



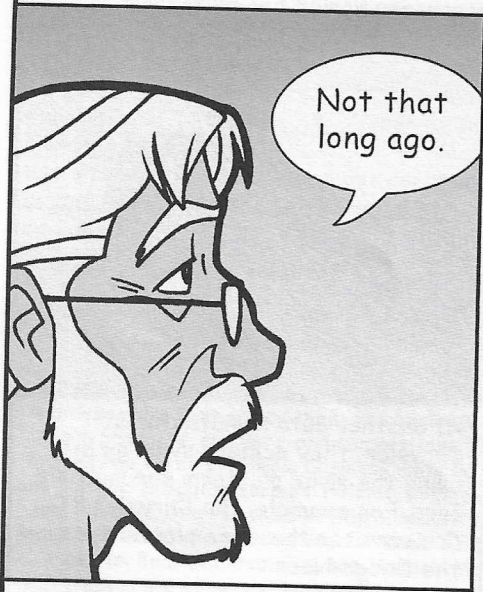
Jack Welch?



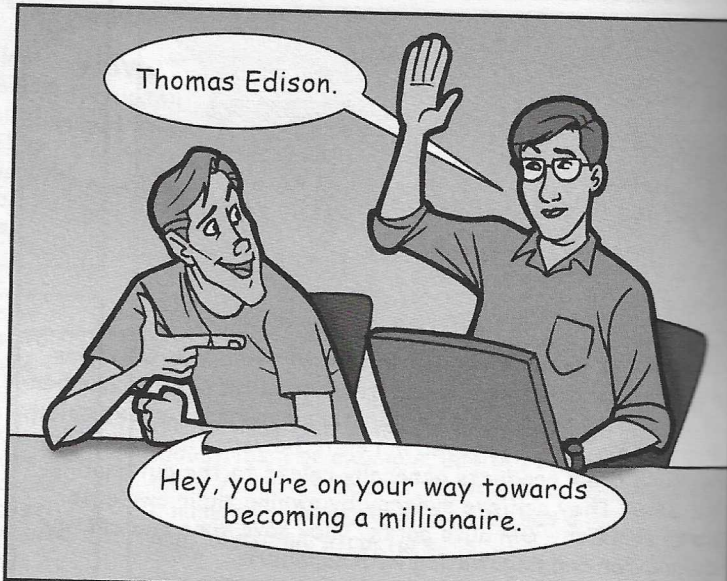
No, but he was a CEO for GE in the recent past, so you're on the right track. Think of someone from much further back in the past.



Noah?



Not that long ago.

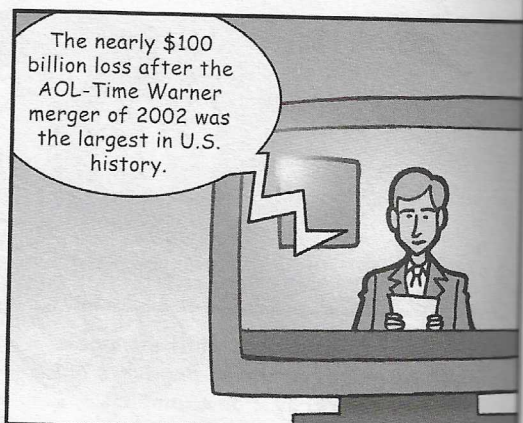


Thomas Edison.

Hey, you're on your way towards becoming a millionaire.



The good news is that our company is twice as large as before. The bad news is that our debt has also doubled.



The nearly \$100 billion loss after the AOL-Time Warner merger of 2002 was the largest in U.S. history.

Unfortunately, many firms have trouble creating synergy. You must consider that when two companies are combined, what generally happens is that another level in the hierarchy is needed to manage the new, larger company.

If no synergy is achieved, this actually makes an acquisition or merger more expensive to run than when the two firms were separate.



th


That is one of the large mergers lost



For individuals, mutual funds are made up of thousands of companies. To minimize the risk of performing poorly, diversify your portfolio. Management funds

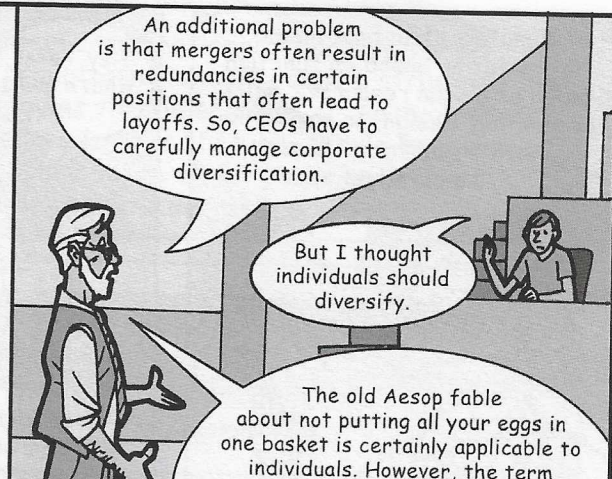


Some firms have to avoid some of the pitfalls of corporate diversification. In the problems we discussed, some companies rely on a structure up of a strategic group of firms - a group of firms work together



I heard that the merge just went through. Hate to be you, dude.


That is one of the reasons why more than half of large mergers lose value for shareholders.



An additional problem is that mergers often result in redundancies in certain positions that often lead to layoffs. So, CEOs have to carefully manage corporate diversification.

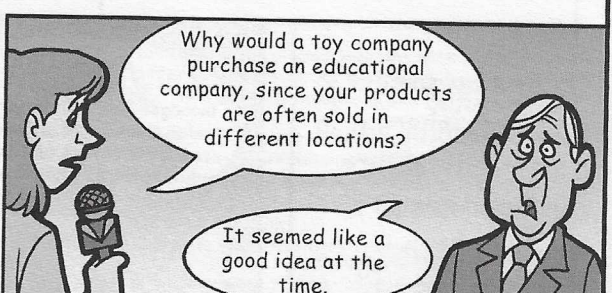
But I thought individuals should diversify.

The old Aesop fable about not putting all your eggs in one basket is certainly applicable to individuals. However, the term "diversification" has a different meaning when applied to corporations than it does when applied to individual investments.



Looks like my stocks are up again! And all I had to do was read the paper!


For individuals, you can diversify by purchasing mutual funds or retirement funds. These funds are made up of a fraction of the ownership of thousands of companies. Thus, you are minimizing the risk of any one company performing poorly. For individuals, when you diversify you do not have to perform any management functions.




Why would a toy company purchase an educational company, since your products are often sold in different locations?

It seemed like a good idea at the time.


For corporations, diversification refers to managing only a few companies rather than thousands. So, it only makes sense to make an acquisition or merger if some level of synergy is gained to offset the costs of the purchase of the company that will be integrated and the costs of the new level in the hierarchy that may need to be created.



Some firms have learned to avoid some of these pitfalls of corporate diversification. To avoid the problems we have discussed, some companies rely on a structure made up of a strategic network - a group of firms that work together.



For example, Nike has relied on this structure to a large degree over the years. Instead of owning their own shoe manufacturers and retail outlets, they rely on a strategic network. These alliances can change over time if needed. Indeed, many people are unaware that Nike has outsourced much of their marketing efforts over the years in addition to shoe production and shoe sales.

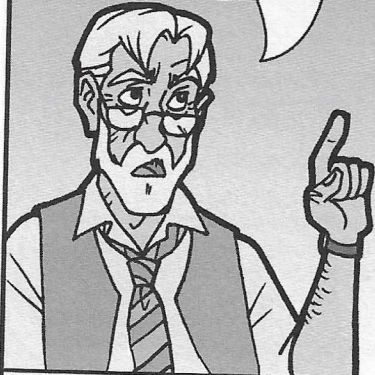


The last structure you should know about is a matrix structure.

I love that movie. Red pills, blue pills, which do I choose?

Somehow, I don't think that's what he means.

A matrix structure blends organization based on function (such as human resources, sales, accounting, design, or marketing) with organization based on product.



Hey, Peter, what's going on?



Not now, Lumberg!



Of course, each structure has its own trade-offs. The movie *Office Space* illustrates some of these problems when the main character, Peter Gibbons, complains about having eight different bosses. So, the idea of unity of command in Weber's ideal bureaucracy is violated with this type of structure, which can create problems in accountability and worker burnout.

Of course, some problems inherent in a matrix structure can be problems in non-high-tech companies as well. Are there any examples that come to mind as jobs many college students hold that violate unity of command?

I worked in a couple of restaurants and each manager had a different set of rules they would enforce and a different idea of the best way that I should work.



This, unfortunately, is a very common problem, and one that is particularly prominent with the matrix structure.



In conclusion, we can think of approaching modern organizations from an ideal perspective. In an ideal world, there would be minimal levels of hierarchy between the CEO and lower-level workers, often referred to as a flat structure. However, since the time of Moses, this approach has been impractical due to needs to manage efficiently. Consequently, more boxes are added to organizational charts. Thus, we move from a very flat organization, such as when Moses directly handled all issues, to a taller organizational structure such as most militaries where a smaller span of control is needed.

We do not think of a single ideal organizational structure for all organizations. Rather, each organization should adopt a structure that matches its particular strategy at the time. However, each of these structures will have potential trade-offs that you should be aware of. And I'll leave you to try to absorb those differences or at least memorize them for the next test. Class dismissed.



Types of Organizational Structures and Trade-Offs for Each Type

Type	Description	Trade-Offs
Simple	A structure where a single manager, often the entrepreneur/owner, manages all aspects of operations. Common for small, start-up, and boutique-type businesses like bed & breakfasts, coffee shops, or boutique clothing stores.	A single decision maker may become overwhelmed or lack the ability to monitor all the organization's critical functions. Many entrepreneurs are too slow to empower others, which results in slower growth of the firm.
Functional	A structure based on different functional areas such as accounting, human resources, manufacturing, marketing, and sales.	Not efficient for corporations with many different products. As the firm grows layoffs may be needed as functions are centralized.
Multidivisional	A structure used by large organizations that centralize elements of strategic decision making and other functions in an effort to avoid redundancies.	Large size of multidivisional firms tends to make changes in strategy and other decision making slower than ideal. Information flow is often inefficient.
SBU	A type of multidivisional structure where organization is based around strategic business units of similar products.	CEOs may tend to make acquisition decisions based on perceived similarities between products that do not translate into actual synergies or profitability for the firm.
Matrix	A structure where functional areas and products can be mixed and matched within the organizational chart.	Allows for mobility of resources such as different engineers working on different products, but violates a clear hierarchy and unity of command that is the basis of an
Network	A structure where a single firm outsources many functions rather than producing them as a function of the corporation.	Allows for flexibility in decision making, but limits profits when value-added functions are outsourced to other firms.

