Dimensions of Organization Structure

OBJECTIVES

After studying this chapter, you should be able to:

Define organization structure and discuss its purpose.

Describe structural configuration and summarize its four basic dimensions.

Discuss two structural policies that affect operations.

Explain the classic views of authority and responsibility.
Allied Signal Incorporated, a multi-business conglomerate, has recently been reorganized. Instead of a traditional departmental system, Allied-Signal employees are assigned to particular products and processes. Here, two workers inspect carpet samples at Azko, a European Company in which Allied-Signal has acquired a majority interest.

The Signal Company started in the oil and gas business in 1922 and merged with Garrett Corporation, the aircraft engine and equipment giant, in 1964. Allied Chemical & Dye Corporation, founded in 1920, moved into the oil and gas business with the purchase of Union Texas Natural Gas in 1962, into the aerospace business through the purchase of the Bendix Corporation in 1983, into electronics with Eltra and Banker Ramo, and into health and scientific products with Fisher Scientific. Finally, in 1985 the two companies merged to become Allied-Signal Incorporated, putting together Signal’s Garrett division and Allied’s Bendix division to make aerospace Allied-Signal’s largest business sector. It had a typical conglomerate structure with the different businesses run somewhat independently, each with the typical functional organization structure.

More change is coming, however, at Allied-Signal.

In response to changes in information technology (the speed with which information is manipulated, stored, retrieved, and disseminated) and the need for increases in productivity, quality, service delivery, and job satisfaction, Allied-Signal is moving toward what they think will be the way most organizations will be organized in the twenty-first century. Rather than have departments with the basic business functions of marketing, accounting, human resources, engineering and others, Allied-Signal plans to organize around processes. Its chief executive officer, Lawrence A. Bossidy, predicts that there will be an organizational revolution. He expects that organizations will organize around the materials and product flows rather than the traditional functions. The lack of departments in the new organization means that Allied-Signal will have no department of engineering, accounting, purchasing, or marketing. All employees have already gone through the company’s training program on total quality management, which Bossidy expects will aid in changing employee attitudes and work behaviors.

Most companies have several basic processes—for example, new product development, flow of materials, and order-delivery billing cycle. At Allied-Signal, specialists will be assigned to one of the basic processes and make their functional contributions to that process. A marketing specialist may be involved in new product development, from concept to design to actual manufacturing. A specialist in finance will be involved in each process as needed. These specialists will be available to contribute their expertise to each process. Engineers will know each other and be able to share information with each other but will not necessarily work with each other every day. Although the new structure may be somewhat confusing at first, Allied-Signal expects the benefits to be worth it.

Organizations such as Allied-Signal do not make major structural changes arbitrarily; rather, they must have some compelling reason. Allied-Signal was already known as the industry leader in aerospace and automotive prod-

ucts, electronics, and health and scientific products, but its managers believed that reorganizing would help focus the company's efforts to serve customers better. In this chapter, we explore how the structure of an organization can be a major factor in how successfully the organization achieves its goals. We begin with an overview of organizations and organization structure that defines each and puts organization structure in the context of organizational goals and strategy. Second, we discuss the two major perspectives of organizing, the structural configuration view and the operational view. Then, we discuss the often confusing concepts of responsibility and authority and present an alternative view of authority. Finally, we show several of the classic views of how organizations should be structured.

The Nature of Organization Structure

In Parts 1 through 4 we discussed major elements of the individual and the factor that ties the individual and the organization together. In a given organization, these factors must fit together within a common framework: the organization's structure.

An organization is a group of people working together to attain common goals.

Organizational goals are objectives that management seeks to achieve in pursuing the firm's purpose.

Organizational goals keep the organization on track by focusing the attention and actions of its members.

Organization structure is a system of task, reporting, and authority relationships within which the organization does its work.

An organization is a group of people working together to achieve common goals. Top management determines the direction of the organization by defining its purpose, establishing the goals to meet that purpose, and formulating strategies to achieve the goals.

The definition of purpose is the organization's reason to exist; in effect, it answers the question, "What business are we in?" The establishment of goals converts the defined purpose into specific, measurable performance targets. Organizational goals are objectives that management seeks to achieve in pursuing the purpose of the firm. Goals motivate people to work together. Although each individual's goals are important to the organization, the organization's overall goals are the most important. Goals keep the organization on track by focusing the attention and actions of the members. They also provide the organization with a forward-looking orientation. They do not address past success or failure; rather, they force members to think about and plan for the future. Finally, strategies are specific action plans that enable the organization to achieve its goals and thus its purpose. They involve the development of an organization structure and the processes to do the organization's work.

Organization structure is a system of task, reporting, and authority relationships within which the work of the organization is done. Thus, structure defines the form and function of the organization's activities. Structure also defines how the parts of an organization fit together, as in an organization chart.


Part 5 Organizational Processes and Characteristics
The purpose of organization structure is to order and coordinate the actions of employees to achieve organizational goals. The premise of organized effort is that people can accomplish more by working together than they can separately. If the potential gains of collective effort are to be realized, however, the work must be coordinated. Suppose that the thousands of employees at Ford Motor Co. worked without any kind of structure. Each person might try to build a car that he or she thought would sell. No two automobiles would be alike, and each would take months or years to build. The costs of making the cars would be so high that no one would be able to afford them. To produce automobiles that are both competitive in the marketplace and profitable for the company, Ford must have a structure in which its employees and managers work together in a coordinated manner.

The task of coordinating the activities of thousands of workers to produce cars that are not only drivable but guaranteed for 60,000 miles may seem monumental. Yet whether for mass producing cars or making soap, the requirements of organization structure are similar. First, the structure must identify the tasks or processes that must be performed for the organization to reach its goals. This is often called division of labor. Even small organizations (those with fewer than one hundred employees) use division of labor. Second, the structure must combine and coordinate the divided tasks to achieve a desired level of output. The more interdependent the divided tasks, the more coordination is required. Every organization structure addresses these two fundamental requirements. The various ways that they do so are what make one organization structure different from another.

Organization structure can be analyzed in three ways. First, we can examine its configuration, or its size and shape as depicted on an organization chart. Second, we can analyze its operational aspects or characteristics, such as separation of specialized tasks, rules and procedures, and decision making. Finally, we can examine responsibility and authority within the organization. In this chapter, we look at organization structure from all three points of view.

The structure of an organization is most often described in terms of its organization chart. A complete organization chart shows all people, positions, reporting relationships, and lines of formal communication in the organization. (As we discuss in Chapter 14, however, communication is not limited to these formal channels.) Large organizations may need several charts to show all positions. For example, one chart may show top management, including the board of directors, the chief executive officer, the president, all vice presidents, and important headquarter staff units. Subsequent charts may show the structure of each department and staff unit. Figure 15.1 shows two organization charts for a large firm; the upper portion of the figure shows top management and the lower portion shows the manufacturing department. Notice that the structure of the different manufacturing groups is given in separate charts.

An organization chart depicts reporting relationships and work group memberships and shows how positions and small work groups are combined into departments, which together make up the **configuration**, or shape, of the organization. The configuration of organizations can be analyzed in terms of how the two basic requirements of structure—division of labor and coordination of the divided tasks are fulfilled.

**Division of labor**

**Division of labor** is the extent to which the organization’s work is separated into different jobs to be done by different people. Division of labor is one of the seven primary characteristics of structuring described by Max Weber—but the concept

can be traced back to the eighteenth-century economist Adam Smith. As we noted in Chapter 1, Smith used a study of pin making to promote the idea of dividing production work to increase productivity. Division of labor continued to increase in popularity as large organizations became more prevalent in a manufacturing society. This has continued, and most research indicates that large organizations usually have more division of labor than small ones.

Division of labor has also been found to have both advantages and disadvantages (see Table 15.1). Modern managers and organization theorists are still struggling with the primary disadvantage: division of labor often results in repetitive, boring jobs that undercut worker satisfaction, involvement, and commitment. In addition, extreme division of labor may be incompatible with new, integrated computerized manufacturing technologies that require teams of highly skilled workers.

Division of labor, however, need not result in boredom. Visualized in terms of a small organization such as a basketball team, it can be quite dynamic. A basketball team consists of five players, each of whom plays a different role on the team. In professional basketball, the five positions typically are center, power forward, small forward, shooting guard, and point guard. The tasks of the players in each position are quite different, resulting in players of different sizes and skills being on the floor at any one time. The teams that won championships, such as the Los Angeles Lakers and the Chicago Bulls, used division of labor by having players specialize in specified tasks and do them impeccably. Similarly, organizations must have specialists who are highly trained and know their specific jobs very well.

Three basic mechanisms are used to help coordinate the divided tasks: departmentalization, span of control, and administrative hierarchy. These mechanisms focus on grouping tasks in some meaningful manner, creating work groups of manageable size, and establishing a system of reporting relationships among supervisors and managers.

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<th>Advantages and Disadvantages of Division of Labor</th>
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<tr>
<td>Efficient use of labor</td>
<td>Routine, repetitive jobs</td>
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<td>Reduced training costs</td>
<td>Reduced job satisfaction</td>
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<td>Increased standardization and uniformity of output</td>
<td>Decreased worker involvement and commitment</td>
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<td>Increased expertise from repetition of tasks</td>
<td>Increased worker alienation</td>
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<td>Possible incompatibility with computerized manufacturing technologies</td>
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Departmentalization is the manner in which divided tasks are combined and allocated to work groups. It is a consequence of the division of labor. Because employees engaged in specialized activities can lose sight of overall organizational goals, their work must be coordinated to ensure that it contributes to the welfare of the organization.

Tasks can be grouped, or departmentalized, in many possible ways. The five most often used methods are by business function, by process, by product or service, by customer, and by geography. The first two, function and process, derive from the internal operations of the organization; the others are based on external factors. Most organizations tend to use a combination of methods, and departmentalization often changes as organizations evolve.

Departmentalization by business function is based on the traditional business functions such as marketing, manufacturing, and human resource administration (see Figure 15.2). In this configuration, employees most frequently associate with those engaged in the same function, which helps in communication and cooperation. In a functional group, employees who do similar work can learn from one another by sharing ideas about opportunities and problems they encounter on the job. Unfortunately, the functional grouping lacks an automatic mechanism for coordinating the flow of work through the organization. In other words, employees in a functional structure tend to associate little with those in other parts of the organization.

The result can be a narrowness of focus that limits the coordination of work among functional groups, as when the engineering department fails to provide marketing with product information because it is too busy testing materials to think about sales.

Basketball teams use the organizational principle of the division of labor as a means to success. Each player on the floor at a given time has an assigned position and task, for which he has been specifically trained. Here, forward Scottie Pippen of the Chicago Bulls tries to evade guard A.C. Green or the Los Angeles Lakers.
Departmentalization by Business Function and by Process

Departmentalization by process is similar to functional departmentalization except that the focus is more on specific jobs grouped according to the activity. Thus, as Figure 15.2 illustrates, the firm’s manufacturing jobs are divided into well-defined manufacturing processes: drilling, milling, heat treating, painting, and assembly. Hospitals often use process departmentalization, grouping professional employees such as therapists according to the types of treatment they provide.

Process groupings encourage specialization and expertise among employees, who tend to concentrate on a single operation and share information with departmental colleagues. A process orientation may develop into an internal career path and managerial hierarchy within the department. As in functional grouping, however, narrowness of focus can be a problem in process departmentalization. Employees in a process group may become so absorbed in the requirements and execution of their operations that they disregard broader considerations such as overall product flow.

Departmentalization by product or service occurs when employees who work on a particular product or service are members of the same department regardless of their business function or the process in which they are engaged. This configuration is shown in Figure 15.3. In the late-1980s IBM reorganized its operations into five autonomous business units: personal computers, medium-size office systems, mainframes, communications equipment, and components. Although this reorganization worked for a while, the company took quite a downturn in the early 1990s.

Colgate-Palmolive changed its organization structure by eliminating the typical functional divisions, such as basic research, processing, and packaging. Instead,
employees were organized into teams based on products such as pet food, household products, and oral hygiene products. Since the reorganization, new-product development has increased significantly and cost savings are estimated to be about $40 million."

Departmentalization according to product or service obviously enhances interaction and communication among employees who produce the same product or provide the same service. Such a grouping may reduce product- or service-related coordination problems. In this type of configuration, there may be less process specialization but more specialization in the peculiarities of the specific product or service. IBM expected that the new alignment would allow all employees, from designers to manufacturing workers to marketing experts, to become specialists in a particular product line. The disadvantage is that employees may become so interested in their particular product or service that they miss technological improvements or innovations developed in other departments. Honda Motor Co. chose a product departmentalization strategy when it introduced the Acura. Honda, however, later changed its structure, as discussed in the Global Perspective. Departmentalization by customer often is referred to as departmentalization by market. Many lending institutions in Texas, for example, have separate departments for retail, commercial, agriculture, and petroleum loans, as shown in Figure 15.4. When important groups of customers differ substantially from one another, organizing along customer lines may represent the most effective way to provide the best product or service possible. This is why hospital nurses often are grouped by the type of illness they handle; the various maladies demand different treatment and specialized knowledge."

With customer departmentalization, there usually is less process specialization because employees must remain flexible to do whatever is necessary to enhance the relationship with customers. This configuration offers the best coordination of the work flow to the customer; however, it may isolate employees from others in their special areas of expertise. For example, if each of a company's three metallurgical specialists is assigned to a different market-based group, these individuals are unlikely to have many opportunities to discuss the latest technological advances in metallurgy.
Does Honda have too little structure?

Honda of America Manufacturing (HAM) has always run one of the leanest car companies in the United States. In fact, it has prided itself on that fact. The supervision of its plant in Ohio has always been based on participation of all employees, the team concept, and everyone as a decision maker with authority and responsibility. Before 1993, Honda's cars, mostly made in the United States, were sold almost as fast as dealers could get them into the showroom. There was little need for an elaborate support staff to assist dealers in marketing, promotion, sales, and service. In 1993, however, sales took a sharp nosedive, and Honda dropped to number six in unit sales during the first half of the year. Intense competition has been part of the problem. Toyota's Lexus and Nissan's Infiniti have set very high standards in sales and service and cut Honda's Acura's sales by 17 percent. Adding to the problem was a potential scandal that alleged that dealers were accepting payoffs from Honda. Denials from the executives notwithstanding, the image of the company was damaged. Its lean structure may have contributed to the problem.

The result has been a restructuring of the company by redeploying almost 2,000 employees into new training programs and new positions. The company is trying to change the old way of thinking and make employees more flexible and responsive to customer needs. As Toyota and Nissan beat them to the showroom floors with new models of minivans, luxury cars, and utility vehicles, Honda had to do something to increase its response time. The new training is expected to increase the company's flexibility and adaptability in the coming market upswing.


Departmentalization by geography means that groups are organized according to a region of the country or world. Sales or marketing groups often are arranged by geographic region. As Figure 15.4 illustrates, the marketing effort of a large, multinational corporation can be divided according to major geographical divisions. Using a geographically based configuration may result in major cost savings and better market coverage. On the other hand, it may isolate work groups from activities in the organization's home office or in the technological community because the focus of the work group is solely on the affairs within the region. This may foster loyalty to the work group that exceeds commitment to the larger organization. In addition, work-related communication and coordination among groups may be somewhat inefficient.

Many large organizations use a mixed departmentalization scheme. Such organizations may have separate operating divisions based on products, but within each division departments may be based on business function, process, customers, or geographic region (see Figure 15.5). Which methods work best depends on the organization's activities, communication needs, and coordination requirements. Another type of mixed structure often occurs in joint ventures, which are becoming increasingly popular. For example, Caterpillar, a long-time industry leader in heavy earth-moving equipment, faced major competition from the Japanese company Komatsu. In response, Caterpillar contracted with Daewoo Corporation of
South Korea to make some of its trucks. Then it formed a joint venture, Shil Caterpillar-Mitsubishi, to make excavators. The new venture drew on Mitsubishi’s expertise in designing and manufacturing quality excavators and on Caterpillar’s unrivaled dealer network and manufacturing capacity.

**Span of Control** Another dimension of organizational configuration, **span or control**, is the number of people reporting to a manager; thus, it defines the size of the organization’s work groups. Span of control is also referred to as span of management. A manager who has a small span of control can maintain close control over workers and stay in contact with daily operations. If the span of control is large, close control is not possible. Figure 15.6 shows examples of small and large spans of control. Supervisors in the upper portion of the figure have a span of control of sixteen, whereas in the lower portion their span of control is eight.

Experts have offered a number of formulas and rules for determining the optimal span of control in an organization, but research on the topic has not conclusively identified a foolproof method. Henry Mintzberg concluded that the optimal unit size depends on the coordination requirements within the unit including factors such as the degree of job specialization in the unit, the similarity of the tasks in the unit, the type of information available or needed by unit members, differences in the members’ need for autonomy, and the extent to which members need direct access to the supervisor. Because results so far are inconclusive, research on span of control continues.
The administrative hierarchy is a system of reporting relationships in the organization, from the lowest to the highest managerial levels. It results from the need for supervisors and managers to coordinate the activities of employees. The size of the administrative hierarchy is inversely related to the span of control: in organizations a small span of control, there are many managers in the hierarchy; organizations with a large span of control have a smaller administrative hierarchy.

Using Figure 15.5 again, we can examine the effects of small and large spans of control on the number of hierarchical levels. The smaller span of control for the supervisors in the lower portion of the figure requires that there be four supervisors rather than two. Correspondingly, another management layer is needed to keep the department head’s span of control at two. Thus, the span of control is small, the workers are under tight supervision, and there are more administrative levels. In the upper portion of the figure, production workers are not closely supervised, and there are fewer administrative levels. As a measure of the number of management personnel, or administrators, in the organization, the administrative hierarchy sometimes is called the administrative component, administrative
The size of the administrative hierarchy also relates to the overall size of the organization. As an organization's size increases, so do its complexity and the requirements for coordination, necessitating proportionately more people to manage the business. This conclusion, however, defines the administrative component as including all of the administrative hierarchy—that is, all of the support staff groups such as personnel, financial services, and legal staff. Defined in this way, the administrative component in a large company may seem huge when compared to the number of production workers. On the other hand, research that separate the support staff and clerical functions from the management hierarchy has found that the ratio of managers to total employees actually decreases with increases in the organization's size. Still other, more recent research has shown that the size of the administrative hierarchy and the overall size of the organization are not related in a straightforward manner, especially during periods of growth and decline.
The popular movement of downsizing has been partially a reaction to the complexity of increasing organizational size. Much of the literature on organizational downsizing has proposed that downsizing results in lower overhead costs, less bureaucracy, faster decision making, smoother communications, and increases in productivity. This expectation is due to the effort to reduce the administrative hierarchy, by cutting layers of middle managers from the middle of the hierarchy. Unfortunately, downsizing efforts have resulted in poorer communication, reduced productivity, and lower employee morale because the downsizing is done indiscriminately without regard for the jobs that people actually do, the coordination needs of the organization, and the additional training that may be necessary for the survivors.

Structure and Operations

Some important aspects of organization structure do not appear on the organization chart and thus are quite different from the configurational aspects discussed in the previous section. In this section, we examine the structural policies that affect operations and prescribe or restrict how employees behave in their organizational activities. The two primary aspects of these policies are centralization of decision making and formalization of rules and procedures.

Centralization

The first structural policy that affects operations is centralization, wherein decision-making authority is concentrated at the top of the organizational hierarchy. This structural aspect is in contrast to decentralization, in which decisions are made throughout the hierarchy. Increasingly, centralization is being discussed in terms of participation in decision making. In decentralized organizations, lower level employees participate in making decisions. The changes that Jack Smith made in 1993 at General Motors were intended to decentralize decision making throughout the company. Smith dismantled the old divisional structure and created a single unit called North American Operations and abolished a tangle of management committees that slowed down decision making. Managers are now encouraged to make decisions on new designs and pricing that used to take weeks to circulate through the committee structure on their way to the top.

Decision making in organizations is more complex than indicated by the simple centralized/decentralized classification. In Chapter 10, we discuss organizational decision making in depth. One of the major distinctions we made there was that
some decisions are relatively routine and require only the application of a decision rule. These decisions are programmed decisions, whereas those that are not routine are non programmed. The decision rules for programmed decisions are formalized for the organization. This difference between programmed and non programmed decisions tends to cloud the distinction between centralization and decentralization. For even if decision making is decentralized, the decisions themselves may be programmed and tightly circumscribed.

If employees participate little in decision making, the organization structure is centralized, regardless of the nature of the decisions being made. At the other extreme, if individuals or groups participate extensively in making non programmed decisions, the structure can be described as truly decentralized. If individuals or groups participate extensively in making mainly programmed decisions, the structure is said to be formalized decentralization. Formalized decentralization is a common way to provide decision-making involvement for employees at many different levels in the organization while maintaining control and predictability.

*Participative management* has been described as a total management system in which people are involved in the daily decision making and management of the organization. As part of an organization's culture, it can contribute meaningfully to the long-run success of the organization. It has been described as effective mid, in fact, morally necessary in organizations. Thus, for many people, participation in decision making has become more than a simple aspect of organization structure. Caution is required, however, because if middle managers are to make effective decisions, as participative management requires, they must have sufficient information."
Formalization is the degree to which rules and procedures shape the jobs and activities of employees.

Formalization is the degree to which rules and procedures shape employees’ jobs and activities. The purpose of formalization is to predict and control how employees behave on the job. Rules and procedures can be both explicit and implicit. Explicit rules are set down in job descriptions, policy and procedures manuals, or office memos. (One large company continually issues directives attempting to limit employee activities, and workers refer to them as “Gestapo” memos because of their prescriptive tone.) Implicit rules may develop as employees become accustomed to doing things a certain way over a period of time. Though unwritten, these established ways of getting things done become standard operating procedures (SOPS) with the same effect on employee behavior as written rules.

We can assess formalization in organizations by looking at the proportion of jobs that are governed by rules and procedures and the extent to which those rules permit variation. More formalized organizations have a higher proportion of rule-bound jobs and less tolerance for rule violations. Increasing formalization may affect the design of jobs throughout the organization, as well as employee motivation, and work group interactions. The specific effects of formalization on employees are still unclear, however.

Organizations tend to add more rules and procedures as the need for control of operations increases. For example, Lotus Development Corp. instituted more rules and procedures, especially in the areas of hiring and personnel, to gain control of its operations in the face of rapid growth. Some organizations have become so formalized that they have rules for how to make new rules! One large state university created such rules in the form of a three-page document entitled “Procedures for Rule Adoption” that was added to the four-inch-thick Policy and Procedures Manual. The new procedure first defines terms such as University, Board, and rule and lists ten exceptions that describe when this procedure on rule adoptions does not apply. It then presents a nine-step process for adopting a new rule within the university.

Other organizations are trying to become less formalized by reducing the number of rules and procedures employees must follow. In this way, Chevron recently cut the number of its rules and procedures from more than four hundred to eighteen. Highly detailed procedures for hiring were eliminated in favor of letting managers make hiring decisions based on common sense.

A relatively new approach to organizational formalization attempts to describe how, when, and why good managers should bend or break a rule. Although rules exist in some form in almost every organization, how strictly they are enforced may vary notably from one organization to another and even within a single organization. Some managers argue that "a rule is a rule" and all rules must be enforced to control employee behaviors and prevent chaos in the organization. Other managers act as if "all rules are made to be broken" and see rules as stumbling blocks to effective action. Neither point of view is better for the organization; rather, a balanced attitude is recommended. The test of a good manager in a formalized organization may be how well he or she uses appropriate judgment in making exceptions to rules.

A balanced approach to making exceptions to rules should do two things. First, it should recognize that individuals are unique and that the organization can benefit from making exceptions that capitalize on exceptional capabilities. For example, an engineering design department with a rule mandating equal access to tools and equipment acquires a limited amount of specialized equipment, such as personal computers. The department manager decides to make an exception to the equal-access rule by assigning the computers to designers the manager believes will use them most and with the best results instead of making them available for use by all. Second, a balanced approach should recognize the commonalities among employees. Managers should make exceptions to rules only when individuals truly and meaningfully differ rather than base exceptions on features such as race, gender, appearance, or social factors.

Responsibility and Authority

Responsibility and authority are related to both configurational and operational aspects of organization structure. For example, the organization chart shows who reports to whom at all levels in the organization. From the operational perspective, the degree of centralization defines the locus of decision-making authority in the organization. Often there is some confusion about what responsibility and authority really mean for managers, however, and how the two terms relate to each other.

Responsibility

Responsibility is an obligation to do something with the expectation that some act or output will result. For example, a manager may expect an employee to write and present a proposal for a new program by a certain date; thus, the employee is "responsible" for preparing the proposal.

Responsibility ultimately derives from the ownership of the organization. The owners hire or appoint a group, often a board of directors, to be responsible for managing the organization, making the decisions, and reaching the goals set by the owners. A downward chain of responsibility is then established. The board...

hires a president to be responsible for running the organization. The president hires more people and holds them responsible for accomplishing designated tasks that enable the president to produce the results expected by the board and the owners. The chain extends throughout the organization because each manager has an obligation to fulfill: to appropriately employ organizational resources (people, money, and equipment) to meet the owners' expectations. Although managers seemingly pass responsibility to others to achieve results, each manager is still held responsible for the outputs of those to whom he or she delegates tasks.

A manager responsible for a work group assigns tasks to members of the group. Each group member is then responsible for doing his or her task. Yet the manager remains responsible for each task and for the work of the group as a whole. This means that managers can take on the responsibility of others but cannot shed their own onto those below them in the hierarchy.

Authority is power that has been legitimized within a specific social context. Only when power is part of an official organizational role does it become authority. Authority includes the legitimate right to use resources to accomplish expected outcomes. As we discussed in the previous section, the authority to make decisions may be restricted to the top levels of the organization or dispersed throughout the organization.

Like responsibility, authority originates in the ownership of the organization. The owners establish a group of directors who are responsible for managing the organization's affairs. The directors, in turn, authorize people in the organization to make decisions and to use organizational resources. Thus, they delegate authority, or power in a social context, to others.

Authority is linked to responsibility because a manager responsible for accomplishing certain results must have the authority to use resources to achieve those results. The relationship between responsibility and authority must be one of parity; that is, the authority over resources must be sufficient to enable the manager to meet the output expectations of others.

But authority and responsibility differ in important ways. Responsibility cannot be delegated down to others, but authority can. One complaint often heard from employees is that they have too much responsibility but not enough authority to get the job done. This indicates a lack of parity between responsibility and authority. Managers usually are quite willing to hold individuals responsible for specific tasks but are reluctant to delegate sufficient authority to do the job. In effect, managers try to rid themselves of responsibility for results (which they cannot do), yet they rarely like to give away their cherished authority over resources.

The delegation of authority to make decisions to lower-level managers is common in organizations today, but giving lower-level managers authority to carry out the decisions they make is essential. Managers typically have difficulty in delegating successfully. Developing Management Skills gives twelve suggestions that should help you develop your delegating skills.

44. John B. Miner, Theories of Or
The Iran/Contra affair of 1987 and 1988 is a good example of the difference between authority and responsibility. Some believe that the Reagan administration confused delegation of authority with abdication of responsibility. President Reagan delegated a great deal of authority to subordinates but did not require that they keep him informed. The subordinates thus made no effort to keep the president informed of their activities. Hence, delegation of authority by the administration was appropriate and necessary, but failing to require progress reports to keep informed and in control of operations resulted in the administration's trying to avoid responsibility. Although the president did hold his subordinates responsible for their actions, he ultimately—and rightfully—retained full responsibility.

An Alternative View of Authority

So far we have described authority as a "top-down" function in organizations; that is, authority originates at the top and is delegated downward as the managers at the top consider appropriate. In Chester Barnard's alternative perspective, authority is seen as originating in the individual who can choose whether to follow directive from above. The choice of whether to comply with a directive is based on the degree to which the individual understands it, feels able to carry it out, and believes it to be in the best interests of the organization and consistent with personal values. This perspective has been called the acceptance theory of authority because it means that the manager's authority depends on the subordinate's acceptance of the manager's right to give the directive and expect compliance.

For example, suppose that you are a marketing analyst. Your company has a painting crew, but for some reason your manager has told you to repaint your office over the weekend. You probably would question your manager's authority to make you do this work. In fact, you would likely refuse to do it. A similar request to work over the weekend to finish a report would more likely be accepted, and carried out. Thus, workers can either accept or reject the directives of a supervisor and thus limit supervisory authority. In most organizational situations, employees accept a manager's right to expect compliance on normal, reasonable directives because of the manager's legitimate position in the organization—hierarchy or in the social context of the organization. When they do not accept the manager's right, they may choose to disobey the directive and must accept the consequences.

Classic Views of Organization Structure

The earliest views of organization structure combined the elements of organization configuration and operation into recommendations on how organization should be structured. These views have often been called classical organization theory and include the ideal bureaucracy of Max Weber, the classic organizing.

Pointers on Making Delegation Work

With all of the downsizing that has occurred recently, managers who are left must do more with less time and fewer resources. In addition, the essence of total quality management is allowing others—teams and individuals—to make decisions about their work. On the other hand, many managers and supervisors complain that they do not know how to delegate effectively. Delegating tasks and decision making to others is essential if what remains of middle management is to survive. The following points should help you delegate more effectively.

1. Choose a specific task and time frame. Know exactly what task is to be delegated and by when.
2. Specify in writing exactly why you are delegating this task.
3. Put down in writing exactly what you expect to be done and how it will be measured.
4. Be sure that the person or team is competent to do the task, or at least knows how to find the competence if they do not have it initially.
5. Be certain that those who will have to do the tasks really want to take on more responsibility.
6. Know what the costs, of making errors, are and that they can be absorbed, just in case errors are made.
7. Measure or oversee the work without being conspicuous and bothersome in doing the task.
8. Make sure that your boss knows that you are delegating this task and approves.
9. Be sure that you will be able to provide the appropriate rewards to the person or team who takes on this additional responsibility if they succeed.
10. Be ready with another task to delegate when the person or team is successful with this one.
11. Be sure to delegate both the responsibility for the task and the authority to utilize the appropriate resources to get the job done.

ideal bureaucracy

Weber's ideal bureaucracy is characterized by a hierarchy of authority and a system of rules and procedures designed to create an optimally effective system for large organizations. Weber’s ideal bureaucracy, presented in Chapter 1, was an organizational system characterized by a hierarchy of authority and a system of rules and procedures that, if followed, would create a maximally effective system for large organizations. Weber claimed that the bureaucratic form of administration is superior to other forms of management with respect to stability, control, and predictability of outcomes.
Weber’s ideal bureaucracy had seven essential characteristics, including the division of labor, hierarchy of authority, and rules and procedures. Weber intended these characteristics to ensure order and predictability in relationships among people and jobs in the bureaucracy. But it is easy to see how these same features can lead to sluggishness, inefficiency, and red tape. If any of the characteristics are carried to an extreme or are violated, the administrative system can easily break down. For example, if never-ending rules and procedures bog down employees with finding the precise rule to follow every time they do something, responses to routine client or customer requests may slow to a crawl. Moreover, subsequent theorists have said that Weber’s view of authority is too rigid and have suggested that the bureaucratic organization may impede creativity and innovation and result in a lack of compassion for the individual in the organization. In other words, the impersonality that is supposed to foster objectivity in a bureaucracy may result in serious difficulties for both employees and the organization. However, some organizations retain some characteristics of a bureaucratic structure while remaining innovative and productive.

The Classic Principles of Organizing

A second classic view was presented at the turn of the century by Henri Fayol, a French engineer and chief executive officer of a mining company. Drawing on his experience as a manager, Fayol was the first to classify the essential elements of management – now usually called management functions – as planning, organizing, command, coordination, and control. In addition, he presented fourteen principles of organizing that he considered an indispensable code for managers.

Fayol’s principles have proved extraordinarily influential; they have served as the basis for the development of generally accepted means of organizing. For example, Fayol’s unity of command means that employees should receive directions from only one person, and unity of direction means that tasks with the same objective should have a common supervisor. Combining these two principles with division of labor and authority and responsibility results in a system of tasks and reporting and authority relationships that is the very essence of organizing. Fayol’s principles thus provide the framework for the organization chart and the coordination of work.

The classic principles have been criticized on several counts. First, they ignore factors such as individual motivation, leadership, and informal groups—the human element in organizations. This line of criticism asserts that the classic principles result in a mechanical organization into which people must fit, regardless of their interests, abilities, or motivations. The principles also have been criticized for their lack of operational specificity in that Fayol described the principles as universal truths but did not specify the means of applying many of them. Finally, Fayol’s classic principles have been discounted because they were not supported by scientific evidence; Fayol presented them as universal principles, backed by no evidence other than his experience.

49. For more discussion of these alternative views, see Miner, *Theories of Organizational Structure and Process*.
Fayol’s Classic Principles of Organizing

<table>
<thead>
<tr>
<th>Principle</th>
<th>Fayol’s Comments</th>
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<tbody>
<tr>
<td>1. Division of work</td>
<td>Individuals and managers work on the same part or task. Authority - right to give orders; power to exact obedience; goes with responsibility for reward and punishment. Obedience, application, energy, behavior Agreement between firm and individual. Employee receives orders from one superior. One head and one plan for activities with the same objective. Objectives of the organization come before objectives of the individual. Pay should be fair to the organization and the individual; discussed various forms. Proportion of discretion held by the manager compared to that allowed to subordinates. Line of authority from lowest to top. A place for everyone and everyone in their place. Combination of kindness and justice; equality of treatment. Stability of managerial personnel; time to get used to work. Power of thinking out and executing a plan. Harmony and union among personnel is strength.</td>
</tr>
<tr>
<td>2. Authority and responsibility</td>
<td></td>
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<tr>
<td>3. Discipline</td>
<td></td>
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<tr>
<td>4. Unity of command</td>
<td></td>
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<tr>
<td>5. Unity of direction</td>
<td></td>
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<tr>
<td>6. Subordination of individual interest to general interest</td>
<td></td>
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<tr>
<td>7. Remuneration of personnel</td>
<td></td>
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<tr>
<td>8. Centralization</td>
<td></td>
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<tr>
<td>9. Scalar chain</td>
<td></td>
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<tr>
<td>10. Order</td>
<td></td>
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<tr>
<td>11. Equity</td>
<td></td>
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<tr>
<td>12. Stability of tenure of personnel</td>
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The Human Organization

Rensis Likert’s human organization approach is based on supportive relationships, participation, and overlapping work groups.

Rensis Likert called his approach to organization structure the human organization. Because Likert and others had criticized Fayol’s classic principles for overlooking human factors, not surprisingly his approach centered on the principles of supportive relationships, employee participation, and overlapping work groups.

The term supportive relationships suggests that in all organizational activities, individuals should be treated in such a way that they experience feelings of support, self-worth, and importance. Participation means that the work group needs


Chapter 15 Dimensions of Organization Structure

Supportive relationships occur when individuals are treated so that they experience feelings of self-worth, support, and importance.

Overlapping work groups are work groups that are connected to each other by a common manager, who serves as a linking pin.

to be involved in decisions that affect it, thereby enhancing the sense of supportiveness and self-worth. The principle of overlapping work groups means that work groups are linked with managers, who serve as linking pins between groups. Each manager (except the highest ranking) is a member of two groups: a work group that he or she supervises and a management group composed of the manager’s peers and their supervisor. Coordination and communication grow stronger when the managers perform the linking function by sharing problems, decisions, and information both upward and downward in the groups to which they belong. The human organization concept rests on the assumption that people work best in highly cohesive groups oriented toward organizational goals. Management’s function is to ensure that the work groups are linked for effective coordination and communication.

Likert described four systems of organizing, whose characteristics are summarized in Table 15.3. System I is called Exploitive Authoritative and can be characterized as the classic bureaucracy. System 4, the Participative Group, is the organization design Likert favored. System 2, the Benevolent Authoritative system, and System 3, the Consultative system, are less extreme than either System I or System 4.

Likert described all four systems in terms of eight organizational variables: leadership processes, motivational forces, communication processes, interaction influence processes, decision-making processes, goal-setting processes, control processes, and performance goals and training. Likert believed that work groups should be able to overlap horizontally as well as vertically where necessary to accomplish tasks. This feature is directly contrary to the classic principle that advocates unity of command. In addition, Likert favored the linking-pin concept of overlapping work groups for making decisions and resolving conflicts over the hierarchical chain of command.

Research support for Likert’s human organization emanates primarily from Likert and his associates’ work at the Institute for Social Research at the University of Michigan. Although their research has upheld the basic propositions of the approach, it is not entirely convincing. One review of the evidence has suggested that although research has shown characteristics of System 4 to be associated with positive worker attitudes and, in some cases, increased productivity, it is not clear that the characteristics of the human organization "caused" the positive results. Possibly, positive attitudes and high productivity allowed the organization structure to be participative and provided the atmosphere for the development of supportive relationships. Likert’s design has also been criticized for focusing almost exclusively on individuals and groups and not dealing extensively with structural issues. Overall, the most compelling support for this approach has come from research that focused on the individual and work group levels. Support for System 4 as a universally applicable organizational system is not strong.

Thus, the major elements of organization structure were embodied in the classic views of organization. Each view, however, combined these important features in different ways and with other management elements. These three classic views are typical of how the early writers attempted to prescribe a universal approach to organization structure that would be best in all situations. In the next chapter we describe other views of organization structure that are effective depending on the organizational situation.

### Characteristics of Likert's Four Management Systems

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<tbody>
<tr>
<td>w. Trust in subordinates</td>
<td>None</td>
<td>None</td>
<td>Substantial</td>
<td>Complete</td>
</tr>
<tr>
<td>ir Subordinates' ideas</td>
<td>Seldom used</td>
<td>Sometimes used</td>
<td>Usually used</td>
<td>Always used</td>
</tr>
<tr>
<td>Motivational Forces</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Level of satisfaction</td>
<td>Overall dissatisfaction</td>
<td>Economic, ego</td>
<td>Moderate</td>
<td>High satisfaction</td>
</tr>
<tr>
<td>b. Motives tapped</td>
<td>Security, status</td>
<td>Economic, ego</td>
<td>Substantial</td>
<td>Complete</td>
</tr>
<tr>
<td>Communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Amount</td>
<td>Very little</td>
<td>Little</td>
<td>Moderate</td>
<td>Much</td>
</tr>
<tr>
<td>ir Direction</td>
<td>Downward</td>
<td>Mostly downward</td>
<td>Down, up</td>
<td>Down, up, lateral</td>
</tr>
<tr>
<td>Interaction-influence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Amount</td>
<td>None</td>
<td>None</td>
<td>Substantial</td>
<td>Complete</td>
</tr>
<tr>
<td>Cooperative teamwork</td>
<td>None</td>
<td>Virtually none</td>
<td>Moderate</td>
<td>Substantial</td>
</tr>
<tr>
<td>Decision Making</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Locus</td>
<td>Top</td>
<td>Policy decided</td>
<td>Broad policy</td>
<td>All levels</td>
</tr>
<tr>
<td>• Subordinates involved</td>
<td>Not at all</td>
<td>Sometimes</td>
<td>Usually</td>
<td>Fully involved</td>
</tr>
<tr>
<td>Goal Setting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manner</td>
<td>Orders</td>
<td>Orders with comments</td>
<td>Set after</td>
<td>Group</td>
</tr>
<tr>
<td>Acceptance</td>
<td>Covertly resisted</td>
<td>Frequently</td>
<td>Sometimes</td>
<td>Fully accepted</td>
</tr>
<tr>
<td>Control Processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level</td>
<td>Top</td>
<td>None</td>
<td>Some below top</td>
<td>All levels</td>
</tr>
<tr>
<td>Information</td>
<td>Incomplete, inaccurate</td>
<td>Often incomplete, inaccurate</td>
<td>Moderately complete, accurate</td>
<td>Complete, accurate</td>
</tr>
<tr>
<td>Performance</td>
<td>Mediocre</td>
<td>Fair to good</td>
<td>Good</td>
<td>Excellent</td>
</tr>
</tbody>
</table>

Organization structure is a system of task, reporting, and authority relationship within which the work of the organization is done. The purpose of organization structure is to order and coordinate the actions of employees to achieve organizational goals. Every organization structure addresses two fundamental issues: the division of available labor according to the tasks to be performed and the combination and coordination of divided tasks to ensure task accomplishment.

An organization chart shows people, positions, reporting relationships, workgroup memberships, departments, and formal lines of communication. In a broader sense, an organization chart shows the configuration, or shape, of the organization. Configuration can be analyzed in two ways: division of labor and coordination of tasks.

Division of labor is the extent to which the work is separated into different jobs to be done by different people. Coordination of task involves departmentalization, span of control, and the administrative hierarchy. Departmentalization is the manner in which the divided tasks are combined and allocated to work groups for coordination. Tasks can be combined into departments on the basis of business function, process, product or service, customer, and geographic region. Span of control is the number of people reporting to a manager, it also defines the size of work groups and is inversely related to the number of hierarchical levels in the organization. The administration hierarchy is the system of reporting relationships in the organization.

Structural policies that affect operations prescribe how employees should behave in their organizational activities. Such policies include centralization of decision making and formalization of rules and procedures. Centralization concentrates decision-making authority at the top of the organizational hierarchy, in decentralized organizations, decisions are made throughout the hierarchy. Formalization is the degree to which rules and procedures shape employee jobs and activities. Its purpose is to predict and control how employees behave on the job. Explicit rules are set down in job descriptions, policy and procedures manuals, and office memos. Implicit rules develop over time as employees become accustomed to doing things a certain way.

A final aspect of organization structure is the dual concepts of authority and responsibility. Responsibility is an obligation to do something. Authority power that has been legitimized within a specific social context and includes the legitimate right to use resources to accomplish expected outcomes. The relationship between responsibility and authority needs to be one of parity that is authority over resources must be adequate to enable the employee to meet the expectations of others.

Weber's ideal bureaucracy, Fayol's classic principles of organizing, and Likert's human organization include many of the major features of organization structure. Weber's ideal bureaucracy is characterized by rules and procedures, division of labor, hierarchy of authority, technical competence, separation of ownership, rights and property differentiation, and documentation. Fayol's classic principles included departmentalization, unity of command, and unity of direction and became generally accepted means of organizing. Likert's human organization was based on the principles of supportive relationships, employee participation, and overlapping work groups.
Discussion Questions

Define organization structure and explain how it fits into the process of managing the organization.
What is the purpose of organization structure? What would an organization be like without a structure?
In what ways are aspects of the organization structure similar to the structural parts of the human body?
How is labor divided in your college or university? In what other ways could your college or university be departmentalized?
What types of organizations could benefit from a small span of control? What types might benefit from a large span of control?
Discuss how increasing formalization might affect the role conflict and role ambiguity of employees. How might the impact of formalization differ for research scientists, machine operators, and bank tellers?
How might centralization or decentralization affect the job characteristics specified in job design?
When a group makes a decision, how is the responsibility for the decision apportioned among the members?
Why do employees typically want more authority and less responsibility?
Considering the job you now hold or one that you have held in the past, does your boss have the authority to direct your work? Why does he or she have this authority?
Describe at least four features of organization structure that were important parts of the classic views of organizing.

This exercise will help you understand the configurational and operational aspects of organization structure.

You will interview employees of a small- to medium-size organization and analyze its structure. (Your instructor may coordinate this exercise with the exercise in Chapter 16.)

Your first task is to find a local organization with fifty to five hundred employees. (It should not be part of your college or university.) The organization should have more than two hierarchical levels, but it should not be too complex to understand in a short period of study. You may want to check with your professor before contacting the company. Your initial contact should be with the highest-ranking manager that you can reach. Make sure that top management is aware of your project and gives its approval.

Using the material in this chapter, interview employees to obtain the following information on the structure of the organization:

Chapter 15 Dimensions of Organization
1. The type of departmentalization (business function, process, product, customer, geographic region)
2. The typical span of control at each level in the organization
3. The number of levels in the hierarchy
4. The administrative ratio (number of managers to total employees and number of managers to production employees)
5. The degree of formalization (To what extent are rules and procedures written down in job descriptions, policy and procedures manuals, and memos?)
6. The degree of decentralization (To what extent are employees at all levels involved in making decisions?)

Interview at least three employees of the company at different levels and in different departments. One should hold a top-level position. Be sure to ask the questions in a way the employees will understand; they may not be familiar with the terminology used in this chapter. The result of the exercise should be a report with a paragraph on each configurational and operational aspect of structure listed in this exercise, an organization chart of the company, a discussion of differences in responses from the employees you interviewed, and a discussion of any unusual structural features (for example, a situation in which employees report to more than one person or to no one). You may want to send a copy of your report to the cooperating company.

Follow-up Questions
1. Which aspects of structure were the hardest to obtain information about? Why?
2. If there were differences in the responses of the employees you interviewed, how do you account for them?
3. If you were president of the organization you analyzed, would you structure it in the same way? Why or why not? If not, how would you structure it differently?

Becton Dickinson and Company is the world's leading producer of single-use medical devices, selling to doctors, hospitals, laboratories, and medical schools. Products include syringes and needles, gloves, blood collection equipment, operating room products, surgical blades, thermometers, and diagnostic equipment. Price competition from internationally based firms, especially the Japanese, threatens its market share. Major changes worldwide as well as continued new product development are needed to keep the company on its growth track.

As other companies rush to reorganize, Becton Dickinson has kept its traditional functional departments. The work does not always get done through those departmental arrangements, however. For the past several years, Becton Dickinson has encouraged employees to form cross-functional teams to do things in new, different, and better ways. Management continually develops and presents to employees a broad vision for the future of each division and then lets each division develop the strategies and plans to accomplish the vision.

The consumer products division, for example, reorganized itself and created cross-functional teams that included suppliers, vendors, and personnel from other divisions. When a new instrument was developed in 1990, the company assigned a team leader who picked a team of engineers, marketers, manufacturing personnel, and suppliers to launch the product. The new product was launched 25 percent faster than
the previous fastest launches in the company. The chief executive officer, Raymond Gilmartin, believed that it could have been done even faster. The problem, they discovered, was structural. During the planning phase, there was constant bickering between marketing and engineering. Marketing wanted an increased number of unique features to better satisfy customers. Engineering insisted that all of the unique features would make the product harder to design and produce and increase its cost. Division management found that the team leader, who was an engineer, continued to report to the head of the division so they can make decisions for the division's best interests. In addition, when conflicts did result, the team leader could go to the "top" for division-wide authority. In other words, within each division, the structure now fits the tasks or projects that need to be done, rather than the other way around.

In other divisions, the heads of the cross-functional teams still maintained tight control on every decision.

Case Questions

1. What elements of structure were really changed by Becton Dickinson?
2. How is authority related to the configurational and operational aspects of structure at Becton Dickinson?
3. Was top management delegating authority or responsibility to middle managers? Why?


When Alice Thornton took over as chief executive officer at Cosmo Plastics, the company was in trouble. Cosmo had started out as an innovative company, known for creating a new product just as the popularity of one of the industry’s old stand-bys was fading. In two decades, it had become an established maker of plastics for the toy industry. Cosmo had grown from a dozen employees to four hundred, and its rules had grown haphazardly with it. Thornton's predecessor, Willard P. Blatz, had found the company’s procedures chaotic and had instituted a uniform set of rules for all employees. Since then, both research output and manufacturing productivity had steadily declined. When the company’s board of directors hired Thornton, they emphasized the need to evaluate and revise the company's formal procedures in an attempt to reverse the trends.

Although everyone had been trained in how to avoid the bureaucracy, managers would not give it up. Finally, upper management kept moving decision making so far down throughout each division that middle managers had to give up some of their tasks and do the same. Finally, the teams were really involved in making decisions that affected their work.

Case 15.2 Changing the Rules at Cosmo Plastics

First, Thornton studied the rules Blatz had implemented. She was impressed to find that the entire procedures manual was only twenty pages long. It began with the reasonable sentence: “All employees of Cosmo Plastics shall be governed by the following . . . .” Thornton had expected to find evidence that Blatz had been a tyrant who ran the company with an iron fist. But as she read through the manual, she found nothing to indicate this. In fact, some of the rules were rather flexible. Employees could punch in anytime between 8:00 and 10:00 A.M. and leave nine hours later, between 5:00 and 7:00 P.M. Managers were expected to keep monthly notes on the people working for them and make yearly recommendations to the human resources committee about raises, bonuses, promotions, and firings. Except for their one-hour lunch break, which they could take at any

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time, employees were expected to be in the building at all times.

Puzzled, Thornton went down to the lounge where the research and development people gathered. She was surprised to find a time clock on the wall. Curious, she fed a time card into it and was even more flabbergasted when the machine chattered noisily, then spit it out. Apparently R&D was none too pleased with the time clock and had found a way to rig it so it registered no time. When Thornton looked up in astonishment, only two of the twelve employees who had been in the room were still there. They said the others had gone back to work when they saw the boss coming.

Thornton asked the remaining pair to tell her what was wrong with company rules, and she got an earful. The researchers, mostly chemists and engineers with advanced graduate degrees, resented punching a time clock and having their work evaluated once a month, when they could not reasonably be expected to come up with something new and worth writing about more than twice a year. Before the implementation of the new rules, they often had gotten inspirations from going down to the local dime store and picking up $5 worth of cheap toys, but now they felt they could make such trips only on their own time. And when a researcher came up with an innovative idea, it often took months for the proposal to work its way up the company hierarchy to the attention of someone who could put it into production. In short, all these sharp minds felt shackled.

Concluding that maybe she had overlooked the rigidity of the rules, Thornton walked over to the manufacturing building to talk to the production supervisors. They responded to her questions with one word: anarchy. With employees drifting in between 8:00 and 10:00 and then starting to drift out again by 11:00 for lunch, the supervisors never knew if they had enough people to run a particular operation. Employee turnover was high, but not high enough in some cases; supervisors believed the rules prevented them from firing all but the most incompetent workers before the end of the year evaluation period. The rules were so “humane” that discipline was impossible to enforce.

By the time Alice Thornton got back to her office, she had a plan. The following week, she called in all the department managers and asked them to draft formal rules and procedures for their individual areas. She told them she did not intend to lose control of the company, but she wanted to see if then could improve productivity and morale by creating formal procedures for their individual departments.

Case Questions

1. Do you think Alice Thornton’s proposal to decentralize the rules and procedures of Cosmo Plastics will work?
2. What risks will the company face if it establishes different procedures for different areas?