

Richard L. Daft

Organization Theory & *Design*



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**Organization Theory & Design,
Eleventh Edition**

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Chapter 1

Organizations and Organization Theory



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Learning Objectives

After reading this chapter you should be able to:

1. Define an organization and the importance of organizations in society.
2. Identify current challenges facing organizations.
3. Understand how organization design concepts apply to a major company like Xerox.
4. Recognize the structural dimensions of organizations and the contingencies that influence structure.
5. Understand efficiency and effectiveness, and the stakeholder approach to measuring effectiveness.
6. Explain historical perspectives on organizations.
7. Describe Mintzberg's five basic parts of an organization.
8. Explain the differences in organic and mechanistic organization designs and the contingency factors typically associated with each.

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Organization Theory in Action

Topics • Current Challenges • Purpose of this Chapter

What Is an Organization?

Definition • From Multinationals to Nonprofits • Importance of Organizations

Dimensions of Organization Design

Structural Dimensions • Contingency Factors • Performance and Effectiveness Outcomes

The Evolution of Organization Theory and Design

Historical Perspectives • It All Depends: Key Contingencies

An Example of Organizational Configuration

Organic and Mechanistic Designs

Contemporary Design Ideas

Open Systems • Chaos Theory

Framework for the Book

Levels of Analysis • Plan of the Book • Plan of Each Chapter

Design Essentials

Before reading this chapter, please check whether you agree or disagree with each of the following statements:

1 An organization can be understood primarily by understanding the people who make it up.

I AGREE _____

I DISAGREE _____

2 The primary role of managers in business organizations is to achieve maximum efficiency.

I AGREE _____

I DISAGREE _____

3 A CEO's top priority is to make sure the organization is designed correctly.

I AGREE _____

I DISAGREE _____

A LOOK INSIDE | XEROX CORPORATION

On the eve of the twenty-first century, Xerox Corporation seemed on top of the world, with fast-rising earnings, a soaring stock price, and a new line of computerized copier-printers that were technologically superior to rival products. Less than two years later, however, many considered Xerox a has-been, destined to fade into history. Consider the following events:

- Sales and earnings plummeted as rivals caught up with Xerox's high-end digital machines, offering comparable products at lower prices.
- Xerox's losses for the opening year of the twenty-first century totaled \$384 million, and the company continued to bleed red ink. Debt mounted to \$18 billion.
- The company's stock fell from a high of \$64 to less than \$4, amid fears that Xerox would file for federal bankruptcy protection. Over an 18-month period, Xerox lost \$38 billion in shareholder wealth.
- Twenty-two thousand Xerox workers lost their jobs, further weakening the morale and loyalty of remaining employees. Major customers were alienated, too, by a restructuring that threw salespeople into unfamiliar territories and tied billing up in knots, leading to mass confusion and billing errors.
- The company was fined a whopping \$10 million by the Securities and Exchange Commission (SEC) for accounting irregularities and alleged accounting fraud.

What went wrong at Xerox? The company's deterioration is a classic story of organizational decline. Although Xerox appeared to fall almost overnight, the organization's problems were connected to a series of organizational blunders over a period of many years.

“BUROX” TAKES HOLD

Xerox was founded in 1906 as the Haloid Company, a photographic supply house that developed the world’s first xerographic copier, introduced in 1959. Without a doubt, the 914 copier was a money-making machine. By the time it was retired in the early 1970s, the 914 was the best-selling industrial product of all time, and the new name of the company, Xerox, was listed in the dictionary as a synonym for photocopying. Yet, like many profitable organizations, Xerox became a victim of its own success. Leaders no doubt knew that the company needed to move beyond copiers to sustain its growth, but they found it difficult to look beyond the 70 percent gross profit margins of the 914 copier.

Xerox’s Palo Alto Research Center (PARC), established in 1970, became known around the world for innovation—many of the most revolutionary technologies in the computer industry, including the personal computer, graphical user interface, Ethernet, and laser printer, were invented at PARC. But the copier bureaucracy, or *Burox* as it came to be known, blinded Xerox leaders to the enormous potential of these innovations. While Xerox was plodding along selling copy machines, younger, smaller, and hungrier companies were developing PARC technologies into tremendous money-making products and services.

The dangers of Burox became dramatically clear when the company’s xerography patents began expiring. Suddenly, Japanese rivals such as Canon and Ricoh were selling copiers at the cost it took Xerox to make them. Market share declined from 95 percent to 13 percent by 1982. And with no new products to make up the difference, the company had to fight hard to cut costs and reclaim market share by committing to Japanese-style techniques and total quality management. Through the strength of his leadership, CEO David Kearns was able to rally the troops and rejuvenate the company by 1990. However, he also set Xerox on a path to future disaster. Seeing a need to diversify, Kearns moved the company into insurance and financial services on a large scale. When he turned leadership over to Paul Allaire in 1990, Xerox’s balance sheet was crippled by billions of dollars in insurance liabilities.

ENTERING THE DIGITAL AGE

Allaire wisely began a methodical, step-by-step plan for extricating Xerox from the insurance and financial services business. At the same time, he initiated a mixed strategy of cost cutting and new-product introductions to get the stodgy company moving again. Xerox had success with a line of digital presses and new high-speed digital copiers, but it fumbled again by underestimating the threat of the desktop printer. By the time Xerox introduced its own line of inkjet printers, the game was already over.

Desktop printing, combined with the increasing use of the Internet and e-mail, cut heavily into Xerox’s sales of copiers. People didn’t need to make as many photocopies, but they still needed effective ways to create and share documents. Rebranding Xerox as “The Document Company,” Allaire pushed into the digital era, hoping to remake Xerox in the image of the rejuvenated IBM, offering not just “boxes (machines)” but complete document management solutions.

As part of that strategy, Allaire picked Richard Thoman, who was then serving as Louis Gerstner’s right-hand man at IBM, as his successor.

Thoman came to Xerox as president, chief operating officer, and eventually CEO, amid high hopes that the company could regain the stature of its glory years. Only 13 months later, as revenues and the stock price continued to slide, he was fired by Allaire, who had remained as Xerox's chairman.

A DYSFUNCTIONAL CULTURE

Allaire and Thoman blamed each other for the failure to successfully implement the digital strategy. Outsiders, however, believe the failure had much more to do with Xerox's dysfunctional culture. The culture was already slow to adapt, and some say that under Allaire it became almost totally paralyzed by politics. Thoman was brought in to shake things up, but when he tried, the old guard rebelled. A management struggle developed, with the outsider Thoman and a few allies on one side lined up against Allaire and his group of insiders who were accustomed to doing things the Xerox way. Recognized for his knowledge, business experience, and intensity, Thoman was also considered to be somewhat haughty and unapproachable. He was never able to exert substantial influence with key managers and employees or to gain the support of board members, who continued to rally behind Allaire.

The failed CEO succession illustrates the massive challenge of reinventing a century-old company. By the time Thoman arrived, Xerox had been going through various rounds of restructuring, cost cutting, rejuvenating, and reinventing for nearly two decades, but little had really changed. Some observers doubted that anyone could fix Xerox because the culture had become too dysfunctional and politicized. "There was always an in-crowd and an out-crowd," says one former executive. "They change the branches, but when you look closely, the same old monkeys are sitting in the trees."

AN INSIDER SHAKES THINGS UP

In August 2001, Allaire turned over the CEO reins to Anne Mulcahy, a popular 24-year veteran, who had started at Xerox as a copier saleswoman and worked her way up the hierarchy. Despite her insider status, Mulcahy proved that she was more than willing to challenge the status quo. She surprised skeptical analysts, stockholders, and employees by engineering one of the most extraordinary business turnarounds in recent history.

How did she do it? Few people thought Mulcahy would take the tough actions Xerox needed to survive, but she turned out to be a strong decision maker. She quickly launched a turnaround plan that included massive cost cutting and the closing of several money-losing operations, including the division she had previously headed. She was brutally honest about "the good, the bad, and the ugly" of the company's situation, as one employee put it, but she also showed that she cared about what happened to employees and she gave them hope for a better future. People knew she was working hard to save the company. After major layoffs, Mulcahy walked the halls to tell people she was sorry and let them vent their anger. She personally negotiated the settlement of a long investigation into fraudulent accounting practices, insisting that her personal involvement was necessary to signal a new commitment to ethical business practices. She appealed directly to creditors, begging them not to pull the plug until a new management team could make needed changes.

Mulcahy transferred much of production to outside contractors and refocused Xerox on innovation and service. In addition to introducing new products, Xerox moved into high-growth areas such as document management services, IT consulting, and digital press technology. A series of small acquisitions enabled the company to enter new markets and expand its base of small and medium-sized business customers.

A NEW ERA AT XEROX

Mulcahy also thought carefully about succession plans, and in 2009 she handed the top job to her second-in-command, Ursula Burns, who became the first African-American woman to head a *Fortune* 500 company. Burns, like Mulcahy, spent decades climbing the ranks at Xerox, actually starting her career there as an intern before earning a master's degree in engineering from Columbia University. Within days of being named CEO, Burns was on a plane, taking a 30-day tour to meet with staff and discuss ways to increase sales. Just weeks after she took over, she announced the biggest acquisition in the company's history—the buyout of outsourcing firm Affiliated Computer Services. As a result of the acquisition, Xerox boosted its services revenue from 23 percent to 50 percent within a year. This signaled the beginning of Burns's new course focused on becoming a state-of-the-art technology resource that other businesses rely on to operate more efficiently. In addition to offering hardware, Xerox now provides everything from mobile printing to cloud services to business process outsourcing. Burns is emphasizing collaboration with other organizations, such as Cisco Systems, which partners with the company to provide managed print tools, mobile printing, and cloud IT outsourcing services. She has also formed numerous partnerships with smaller organizations, in the United States and abroad, to offer both products and services.

Xerox has won accolades for its leaders' commitment to ethical and socially responsible behavior. It has been recognized as one of the World's Most Ethical Companies by the Ethisphere Institute; voted the World's Most Admired Company in the computer industry in *Fortune* magazine's survey; named one of the 100 Best Corporate Citizens by *Corporate Responsibility Officer* magazine; and ranked Number 1 in the Green Outsourcing Survey list. In addition, Xerox is recognized for its commitment to diversity and is considered one of the best places to work for women and minorities.

A decade or so after this American icon almost crashed, Xerox is once again admired in the corporate world. Has the “perfect storm” of troubles been replaced with a “perfect dawn?” Burns and her top management team believe Xerox is positioned to be resilient in the face of the current economic slowdown, but in the rapidly changing world of organizations, nothing is ever certain.¹

Welcome to the real world of organization theory and design. The shifting fortunes of Xerox illustrate organization theory in action. Xerox managers were deeply involved in organization theory and design each day of their working lives—but many never realized it. Company managers didn't fully understand how the organization related to the environment or how it should function internally. Organization theory concepts have enabled Anne Mulcahy and Ursula Burns to analyze and diagnose what is happening

and the changes needed to help Xerox keep pace with a fast-changing world. Organization theory gives us the tools to explain the decline of Xerox, understand Mulcahy's turnaround, and recognize some steps Burns can take to keep Xerox competitive.

Similar problems have challenged numerous organizations. American Airlines, for example, was once the largest airline in the United States, but managers have been struggling for the past decade to find the right formula to keep the once-proud company competitive. American's parent company, AMR Corporation, accumulated \$11.6 billion in losses from 2001 to 2011 and hasn't had a profitable year since 2007.² Or consider the dramatic organizational missteps illustrated by the 2008 crises in the mortgage industry and finance sector in the United States. Bear Stearns disappeared and Lehman Brothers filed for bankruptcy. American International Group (AIG) sought a bailout from the U.S. government. Another icon, Merrill Lynch, was saved by becoming part of Bank of America, which had already snapped up struggling mortgage lender Countrywide Financial Corporation.³ The 2008 crisis in the U.S. financial sector represented change and uncertainty on an unprecedented scale, and it would, to some extent, affect managers in all types of organizations and industries around the world for years to come.

Organization Theory in Action

Organization theory and design gives us the tools to evaluate and understand how a huge, powerful firm like Lehman Brothers can die and a company like Bank of America can emerge almost overnight as a giant in the industry. It enables us to comprehend how a band like the Rolling Stones, which operates like a highly sophisticated global business organization, can enjoy phenomenal success for nearly half a century, while some musical groups with equal or superior talent don't survive past a couple of hit songs. Organization theory helps us explain what happened in the past, as well as what may happen in the future, so that we can manage organizations more effectively.

Topics

Each of the topics to be covered in this book is illustrated in the Xerox case. Indeed, managers at organizations such as Xerox, Lehman Brothers, American Airlines, and even the Rolling Stones are continually faced with a number of challenges. For example:

- How can the organization adapt to or control such external elements as competitors, customers, government, and creditors in a fast-paced environment?
- What strategic and structural changes are needed to help the organization attain effectiveness?
- How can the organization avoid management ethical lapses that could threaten its viability?
- How can managers cope with the problems of large size and bureaucracy?
- What is the appropriate use of power and politics among managers?
- How should internal conflict and coordination between work units be managed?
- What kind of corporate culture is needed and how can managers shape that culture?
- How much and what type of innovation and change is needed?

These are the topics with which organization theory and design is concerned. Organization theory concepts apply to all types of organizations in all industries.

BRIEFCASE



As an organization manager, keep these guidelines in mind:

Do not ignore the external environment or protect the organization from it. Because the environment is unpredictable, do not expect to achieve complete order and rationality within the organization. Strive for a balance between order and flexibility.

Managers at Hyundai, for example, turned the Korean auto manufacturer once known for producing inexpensive no-frills cars with a poor reputation into the world's fifth largest automaker by relentlessly focusing on quality, cost-control, and customer satisfaction. Bob Iger and his top management team revitalized the Walt Disney Company by effectively managing internal conflicts and enhancing coordination both within the company and with outside partners. Managers at high-end cosmetics firm Estée Lauder undertook a major reorganization to improve sales in a weak economy.⁴ All of these companies are using concepts based in organization theory and design. Organization theory also applies to nonprofit organizations such as the United Way, the American Humane Association, local arts organizations, colleges and universities, and the Make-A-Wish Foundation, which grants wishes to terminally ill children.

Organization theory and design draws lessons from organizations such as Xerox, Walt Disney Company, and United Way and makes those lessons available to students and managers. As our opening example of Xerox shows, even large, successful organizations are vulnerable, lessons are not learned automatically, and organizations are only as strong as their decision makers. Organizations are not static; they continuously adapt to shifts in the external environment. Today, many companies are facing the need to transform themselves into dramatically different organizations because of new challenges in the environment.

Current Challenges

Research into hundreds of organizations provides the knowledge base to make Xerox and other organizations more effective. Challenges facing organizations today are different from those of the past, and thus the concept of organizations and organization design is evolving. The world is changing more rapidly than ever before, and managers are responsible for positioning their organizations to adapt to new needs. Some specific challenges today's managers and organizations face are globalization, intense competition, rigorous ethical scrutiny, the need for rapid response, adapting to a digital world, and embracing diversity.

Globalization. The cliché that the world is getting smaller is dramatically true for today's organizations. With rapid advances in technology and communications, the time it takes to exert influence around the world from even the most remote locations has been reduced from years to only seconds. Markets, technologies, and organizations are becoming increasingly interconnected.⁵ Today's successful organizations feel "at home" anywhere in the world. Companies can locate different parts of the organization wherever it makes the most business sense: top leadership in one country, technical brainpower and production in other locales.

Related trends are global *outsourcing*, or contracting out some functions to organizations in other countries, and *strategic partnering* with foreign firms to gain a global advantage. Cross-border acquisitions and the development of effective business relationships in other countries are vital to many organizations' success. Large multinational corporations are actively searching for managers with strong international experience and the ability to move easily between cultures. A poll by the Association of Executive Search Consultants found China, India, and Brazil to be the top three countries in which companies want star talent, reflecting these organizations' increasing investment in those regions.⁶

Intense Competition. This growing global interdependence creates new advantages, but it also means that the environment for companies has become extremely competitive. Only 24 percent of managers responding to Bain & Company's recent global Management Tools and Trends survey believe the market leaders of today will still be the market leaders five years from now.⁷ Customers want low prices for quality goods and services, and the organizations that can meet that demand will win. Outsourcing firms in low-wage countries can often do work for 50 to 60 percent less than companies based in the United States, for instance, so U.S. firms that provide similar services have to search for new ways to compete or go into new lines of business.⁸ One entrepreneur with a new type of battery for notebook computers is having the product manufactured by a factory in Shenzhen, China. She wanted to produce it in the United States, but U.S. contract manufacturers wanted millions of dollars up front, a demand not made by any of the manufacturers she met with in China.⁹

In today's weak economy, companies in all industries are feeling pressure to drive down costs and keep prices low, yet at the same time they are compelled to invest in research and development or get left behind in the global drive for innovation. Consider McDonald's. Even as managers were seeking ways to expand the menu and draw in new customers, McDonald's labs were testing how to cut the cost of making basic items on the Dollar Menu. With the price of ingredients such as cheese, beef, and buns going up, McDonald's had to cut internal costs or lose money on its dollar-menu products.¹⁰ Auto insurers searched for new ways to compete as drivers faced with steep gas prices looked for ways to cut their transportation costs.¹¹ Casual restaurant chains battled to draw in customers as people cut back on eating out. Grocers, too, felt the sting. Faced with higher transportation costs, managers at Supervalu raised their prices, but sales and profits plunged. They adjusted their strategy to promote cheaper store brands, work with manufacturers to design innovative promotions and coupons, and introduce new lines of products at lower prices.¹²

Ethics and Sustainability. Today's managers face tremendous pressure from the government and the public to hold their organizations and employees to high ethical and professional standards. Following widespread moral lapses and corporate financial scandals, organizations are under scrutiny as never before. Every decade seems to experience its share of scoundrels, but the pervasiveness of ethical lapses during the first decade of this century has been astounding. A survey of 20,000 people in 19 countries, conducted by market research firm GfK for *The Wall Street Journal*, found that 55 percent of respondents believe cheating in business is more common today than it was 10 years ago.¹³ Another survey by The Ethics Resource Center revealed that more than half of American employees have observed at least one type of ethical misconduct (e.g., theft, lying) per year in their organizations.¹⁴

In addition to calls for higher ethical standards, people are demanding a stronger commitment by organizations to social responsibility, particularly when it comes to protecting the natural environment. *Going green* has become a new business imperative, driven by shifting social attitudes, new government policies, climate changes, and the information technology that quickly spreads news of a corporation's negative impact on the environment. Many companies are embracing the philosophy of **sustainability**, which refers to economic development that generates wealth and meets the needs of the current generation while saving the environment so future

generations can meet their needs as well.¹⁵ Walmart has become a surprise darling of the sustainability movement with its implementation of an energy-efficient trucking fleet, its growing use of green materials in buildings, and its zero waste initiative that aims to eliminate all the company's landfill waste by 2025. In addition, Walmart is pushing these initiatives down to suppliers, which could have a tremendous impact.¹⁶

Speed and Responsiveness. A fourth significant challenge for organizations is to respond quickly and decisively to environmental changes, organizational crises, or shifting customer expectations. For much of the twentieth century, organizations operated in a relatively stable environment, so managers could focus on designing structures and systems that kept the organization running smoothly and efficiently. There was little need to search for new ways to cope with increased competition, volatile environmental shifts, or changing customer demands. Today, globalization and advancing technology have accelerated the pace at which organizations in all industries must roll out new products and services to stay competitive. Today's customers want products and services tailored to their exact needs, and they want them *now*. Manufacturing firms that relied on mass production and distribution techniques must be prepared with new computer-aided systems that can produce one-of-a-kind variations and streamlined distribution systems that deliver products directly from the manufacturer to the consumer. Service firms are also searching for new ways to provide value. Allstate Insurance, for example, enhanced responsiveness to customers with its Your Choice Auto program, which gives drivers the opportunity to choose the insurance perks they want. Allstate managers recognize that what appeals to drivers can change quickly as gasoline prices shift.¹⁷

Considering the turmoil and flux inherent in today's world, the mindset needed by organizational managers is to expect the unexpected and be prepared for rapid change and potential crises. Crisis management has moved to the forefront in light of devastating natural disasters and terrorist attacks all over the world; a weak global economy, sovereign debt crises, growing unemployment, and weakening consumer confidence; widespread ethical scandals; and, in general, an environment that may shift dramatically at a moment's notice.

The Digital World. Today's realm of the Internet, social networking, blogs, online collaboration, Web-based communities, podcasting, mobile devices, Twittering, Facebooking, You Tube-ing, and Skype-ing is radically different from the world many managers are familiar and comfortable with.¹⁸ The digital revolution has changed everything—not just how we communicate with one another, find information, and share ideas, but also how organizations are designed and managed, how businesses operate, and how employees do their jobs.

New and emerging digital tools enable many employees to perform much of their work on computers, perhaps working in virtual teams and connected electronically to colleagues around the world. In addition, rather than competing as independent entities, organizations are breaking down boundaries and collaborating with other organizations and individuals to provide innovative products and services.¹⁹ Procter & Gamble doubled the success rate of new product introductions by using an “open innovation” approach rather than inventing and producing everything in-house.²⁰ Even the Federal Bureau of Investigation is taking a more open, collaborative approach. In 2011, the FBI posted on its Web site two notes written in code that were found in the

Chapter 1: Organizations and Organization Theory

pocket of a murder victim in Missouri in 1999, asking for the public's help in cracking the code that investigators have so far been unable to decipher.²¹ These advances mean that an organization's managers not only need to be technologically savvy but are also responsible for managing a web of relationships that reaches far beyond the boundaries of the physical organization, building flexible e-links between a company and its employees, suppliers, contract partners, and customers.²²

Diversity. As organizations increasingly operate on a global playing field, the workforce—as well as the customer base—grows increasingly diverse. Many of today's leading organizations have an international face. Look at the makeup of consulting firm McKinsey & Company. In the 1970s most consultants were American, but by the turn of the century McKinsey's chief partner was a foreign national (Rajat Gupta from India), only 40 percent of consultants were American, and the firm's foreign-born consultants came from 40 different countries.²³ Pepsi Co is currently led by Indra Nooyi, an India-born woman, and Coca-Cola is headed by Turkish American Muhtar Kent.

In addition to coping with global diversity, managers in the United States realize the nation's domestic population is changing dramatically. About a third of current population growth in the United States is due to immigration, and immigration is expected to continue being a positive element in coming decades.²⁴ The number of Hispanics in the U.S. workforce is expected to increase by 7.3 million between 2008 and 2018, and Hispanics will make up 17.6 percent of the workforce by 2018.²⁵ In addition to greater racial and cultural diversity in the workplace, women became the majority of the workforce for the first time in U.S. history in 2010.²⁶ Ursula Burns, the CEO of Xerox, captures how times have changed since she graduated from college in 1980: "I assure you that no one at my commencement was pointing at me and predicting that I'd become a CEO. *Women* presidents of large global companies were non-existent. *Black* women presidents of large companies were unimaginable."²⁷ The growing diversity within organizations brings vitality and many benefits but also a variety of challenges, such as maintaining a strong corporate culture while supporting diversity, balancing work and family concerns, and coping with the conflict brought about by varying cultural styles.

Purpose of this Chapter

The purpose of this chapter is to explore the nature of organizations and organization theory today. Organization theory has developed from the systematic study of organizations by scholars. Concepts are obtained from living, ongoing organizations. Organization theory has a practical application, as illustrated by the Xerox case. It helps managers understand, diagnose, and respond to emerging organizational needs and problems.

The next section begins with a formal definition of organization and then explores introductory concepts for describing and analyzing organizations, including various structural dimensions and contingency factors. We introduce the concepts of effectiveness and efficiency and describe the stakeholder approach, which considers what different groups want from the organization. Succeeding sections examine the history of organization theory and design, a framework for understanding organizational configuration, the distinction between

mechanistic and organic designs, organizations as open systems, and how organization theory can help people manage complex organizations in a rapidly changing world. The chapter closes with a brief overview of the themes to be covered in this book.

What Is an Organization?

Organizations are hard to see. We see outcroppings, such as a tall building, a computer workstation, or a friendly employee, but the whole organization is vague and abstract and may be scattered among several locations, even around the world. We know organizations are there because they touch us every day. Indeed, they are so common that we take them for granted. We hardly notice that we are born in a hospital, have our birth records registered in a government agency, are educated in schools and universities, are raised on food produced on corporate farms, are treated by doctors engaged in a joint practice, buy a house built by a construction company and sold by a real estate agency, borrow money from a bank, turn to police and fire departments when trouble erupts, use moving companies to change residences, and receive an array of benefits from various government agencies.²⁸ Most of us spend many of our waking hours working in an organization of one type or another.

Definition

Organizations as diverse as a bank, a corporate farm, a government agency, and Xerox Corporation have characteristics in common. The definition used in this book to describe organizations is as follows: **organizations** are (1) social entities that (2) are goal-directed, (3) are designed as deliberately structured and coordinated activity systems, and (4) are linked to the external environment.

An organization is not a building or a set of policies and procedures; organizations are made up of people and their relationships with one another. An organization exists when people interact with one another to perform essential functions that help attain goals. An organization is a means to an end. We might think of an organization as a tool or instrument used by owners and managers to accomplish a specific purpose. The purpose will vary, but the central aspect of an organization is the coordination of people and resources to collectively accomplish desired ends.²⁹ Managers deliberately structure and coordinate organizational resources to achieve the organization's purpose. However, even though work may be structured into separate departments or sets of activities, most organizations today are striving for greater horizontal coordination of work activities, often using teams of employees from different functional areas to work together on projects. Boundaries between departments, as well as those between organizations, are becoming more flexible and diffuse as companies face the need to respond to changes in the external environment more rapidly. An organization cannot exist without interacting with customers, suppliers, competitors, and other elements of the external environment. Today, some companies are even cooperating with their competitors, sharing information and technology to their mutual advantage.

From Multinationals to Nonprofits

Some organizations are large, multinational corporations, others are small, family-owned businesses, and still others are nonprofit organizations or governmental agencies. Some manufacture products such as automobiles, flat-panel televisions, or light bulbs, whereas others provide services such as legal representation, Internet and telecommunications services, mental health resources, or car repair. Later in this text, Chapter 7 will look at the distinctions between manufacturing and service technologies. Chapter 9 discusses size and life cycle and describes some differences between small and large organizations.

Another important distinction is between for-profit businesses and *nonprofit organizations*. All of the topics in this text apply to nonprofit organizations such as the Salvation Army, the World Wildlife Fund, the Save the Children Foundation, and Chicago's La Rabida Hospital, which is dedicated to serving the poor, just as they do to businesses such as Xerox, GameSpot, Sirius XM Radio, and Dunkin' Donuts. However, there are some important distinctions to keep in mind. The primary difference is that managers in businesses direct their activities toward earning money for the company, whereas managers in nonprofits direct their efforts toward generating some kind of social impact. The unique characteristics and needs of nonprofit organizations present unique challenges for organizational leaders.³⁰

Financial resources for nonprofits typically come from government appropriations, grants, and donations rather than from the sale of products or services to customers. In businesses, managers focus on improving the organization's products and services to increase sales revenues. In nonprofits, however, services are typically provided to nonpaying clients, and a major problem for many organizations is securing a steady stream of funds to continue operating. Nonprofit managers, committed to serving clients with limited funds, must focus on keeping organizational costs as low as possible and demonstrating a highly efficient use of resources. Moreover, for-profit firms often compete with nonprofits for limited donations through their own philanthropic fundraising efforts.³¹ Another problem is that, since nonprofit organizations do not have a conventional "bottom line," managers often struggle with the question of what constitutes organizational effectiveness. It is easy to measure dollars and cents, but nonprofits have to measure intangible goals such as "improve public health," "make a difference in the lives of the disenfranchised," or "enhance appreciation of the arts."

Managers in nonprofit organizations also deal with many diverse stakeholders and must market their services to attract not only clients (customers) but also volunteers and donors. This can sometimes create conflict and power struggles among organizations, as illustrated by the Make-A-Wish Foundation, which has found itself at odds with small, local wish-granting groups as it expands to cities across the United States. The more kids a group can count as helping, the easier it is to raise funds. Local groups don't want Make-A-Wish invading their turf, particularly at a time when charitable donations in general have declined along with the declining economy. Small groups are charging that Make-A-Wish is abusing the power of its national presence to overwhelm or absorb the smaller organizations. "We should not have to compete for children and money," says the director of the Indiana Children's Wish Fund. "They [Make-A-Wish] use all their muscle and money to get what they want."³²

Thus, the organization design concepts discussed throughout this book, such as dealing with issues of power and conflict, setting goals and measuring effectiveness,

BRIEFCASE



As an organization manager, keep this guideline in mind:

Consider the needs and interests of all stakeholders when setting goals and designing the organization to achieve effectiveness.

coping with environmental uncertainty, implementing effective control mechanisms, and satisfying multiple stakeholders, apply to nonprofit organizations such as the Indiana Children’s Wish Fund just as they do to businesses such as Xerox. These concepts and theories are adapted and revised as needed to fit the unique needs and problems of various small, large, profit, or nonprofit organizations.

Importance of Organizations

It may seem hard to believe today, but organizations as we know them are relatively recent in the history of humankind. Even in the late nineteenth century there were few organizations of any size or importance—no labor unions, no trade associations, and few large businesses, nonprofit organizations, or governmental agencies. What a change has occurred since then! The development of large organizations transformed all of society, and, indeed, the modern corporation may be the most significant innovation of the past 100 years.³³ This chapter’s Book Mark examines the rise of the corporation and its significance in our society.

Organizations are all around us and shape our lives in many ways. But what contributions do organizations make? Why are they important? Exhibit 1.1 indicates seven reasons organizations are important to you and to society. First, recall that an organization is a means to an end. Organizations bring together resources to

EXHIBIT 1.1
Importance of
Organizations



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BOOKMARK

1.0

HAVE YOU READ THIS BOOK?

The Company: A Short History of a Revolutionary Idea

By John Micklethwait and Adrian Wooldridge

“The limited liability corporation is the greatest single discovery of modern times,” is one conclusion of the concise and readable book *The Company: A Short History of a Revolutionary Idea* by John Micklethwait and Adrian Wooldridge. Companies are so ubiquitous today that we take them for granted, so it may come as a surprise that the company as we know it is a relatively recent innovation. Although people have joined together in groups for commercial purposes since ancient Greek and Roman times, the modern company has its roots in the late nineteenth century. The idea of a *limited liability company* that was legally an “artificial person” began with the Joint Stock Companies Act, enacted by the London Board of Trade in 1856. Today the company is seen as “the most important organization in the world.” Here are a few reasons why:

- The corporation was the first autonomous legal and social institution that was within society yet independent of the central government.
- The concept of a limited liability company unleashed entrepreneurs to raise money because investors could lose only what they invested. Increasing the pool of entrepreneurial capital spurred innovation and generally enriched the societies in which companies operated.
- The company is the most efficient creator of goods and services that the world has ever known. Without a company to harness resources and organize activities, the cost to consumers for almost any product we know today would be impossible to afford.
- Historically, the corporation has been a force for civilized behavior and provided people with worthwhile activities, identity, and community, as well as a paycheck.
- The Virginia Company, a forerunner of the limited liability corporation, helped introduce the revolutionary concept of democracy to the American colonies.
- The modern multinational corporation began in Britain in the third quarter of the 1800s with the railroads, which built rail networks throughout Europe by shipping into each country the managers, materials, equipment, and labor needed.

During the past few years, it seems that large corporations have been increasingly in conflict with societies’ interests. Yet large companies have been reviled throughout modern history—consider the robber barons at the beginning of the twentieth century—and the authors suggest that recent abuses are relatively mild compared to some incidents from history. Everyone knows that corporations can be scoundrels, but overall, Micklethwait and Wooldridge argue, their force has been overwhelmingly for the cumulative social and economic good.

The Company: A Short History of a Revolutionary Idea, by John Micklethwait and Adrian Wooldridge, is published by The Modern Library.

accomplish specific goals. A good example is Northrup Grumman Newport News (formerly Newport News Shipbuilding), which builds nuclear-powered, Nimitz-class aircraft carriers. Putting together an aircraft carrier is an incredibly complex job involving 47,000 tons of precision-welded steel, more than 1 million distinct parts, 900 miles of wire and cable, and more than seven years of hard work by 17,800 employees.³⁴ How could such a job be accomplished without an organization to acquire and coordinate these varied resources?

Organizations also produce goods and services that customers want at competitive prices. Companies look for innovative ways to produce and distribute desirable goods and services more efficiently. Two ways are through e-business and through the use of digital manufacturing technologies. For example, managers at Sandberg Furniture, based in Vernon, California, have been able to keep the 122-year-old family-owned company competitive against stiff foreign competition by using advanced technology.

Sandberg Furniture

IN PRACTICE

At one time, the Southern California furniture industry was a \$1.3-billion-a-year business employing more than 60,000 workers. Today, though, inexpensive imported furniture from China has put many of the once-thriving companies out of business. How have managers kept Sandberg Furniture going? “We’ve had to be very efficient,” says CEO John Sandberg, great-grandson of the founder. Managers embarked on some major changes after they discovered that retailers could import completed products for less than the cost of Sandberg’s materials. “I knew we were in trouble,” Sandberg says.

Today, Sandberg Furniture is a leader in the technology for making paper-laminate, moderately-priced laminated bedroom furniture. Two Schelling panel saws from Austria make software programmed cuts of the laminated wood and leave as little waste as possible. Another machine cuts, bends, and glues a single piece of laminate, which eliminates the need for more machines (and people) to put together four or five separate pieces. The company has also created a proprietary finishing technology that not only makes the furniture scratch-, dent-, and chemical-resistant but also creates a finish that makes a lightweight piece of laminated wood look like a heavy block of marble.

Sandberg can now do the same work that 450 people once did with about 150 employees because of the advanced technology and cross-training of workers.³⁵

Faced with tough competition, strict environmental regulations in California, and other challenges, investing in advanced technology to increase efficiency was the only way Sandberg Furniture could survive. Redesigning organizational structures and management practices can also contribute to increased efficiency. Organizations create a drive for innovation rather than a reliance on standard products and outmoded approaches to management and organization design.

Organizations adapt to and influence a rapidly changing environment. Consider Facebook, which continues to adapt and evolve along with the evolving Internet and social media environment. In July 2011, the company introduced a free video-calling feature to its 750,000 worldwide members. Founder and CEO Mark Zuckerberg wants managers who aren’t afraid to break things in order to make them better. Facebook’s management team encourages a culture of fearlessness, helping the company win the top spot on *Fast Company’s* 2010 list of the world’s 50 most innovative companies (it dropped to Number 3 in 2011, behind Apple and Twitter). Even during grim economic times, Facebook was increasing its engineering team, investing in new ideas, and pushing people to take risks for the future.³⁶ Many organizations have entire departments charged with monitoring the external environment and finding ways to adapt to or influence that environment.

Through all of these activities, organizations create value for their owners, customers, and employees. Managers analyze which parts of the operation create value and which parts do not; a company can be profitable only when the value it creates is greater than the cost of resources. For example, Vizio Inc., which seemed to come out of nowhere to become the Number 1 seller of flat-panel HDTVs in the United States, creates value by using existing LCD technology and developing an equity partnership with a contract manufacturer rather than producing televisions in-house. By keeping its costs low, the California-based company has been able to sell flat-panel HDTVs at about half the cost of those sold by major electronics manufacturers.³⁷

Finally, organizations must cope with and accommodate today’s challenges of workforce diversity and growing concerns over ethics and sustainability, as well as find effective ways to motivate employees to work together to accomplish organizational goals.

Dimensions of Organization Design

Organizations shape our lives, and well-informed managers can shape organizations. The first step for understanding organizations is to look at the features that describe specific organizational design traits. These features describe organizations in much the same way that personality and physical traits describe people.

Exhibit 1.2 illustrates two types of interacting features of organizations: structural dimensions and contingency factors. **Structural dimensions** provide labels to describe the internal characteristics of an organization. They create a basis for measuring and comparing organizations. **Contingency factors** encompass larger elements that influence structural dimensions, including the organization's size, technology, environment, culture, and goals. Contingency factors describe the organizational setting that influences and shapes the structural dimensions. Contingency factors can be confusing because they represent both the organization and the environment. These factors can be envisioned as a set of overlapping elements that shape an organization's structure and work processes, as illustrated in Exhibit 1.2. To understand and evaluate organizations, one must examine both structural dimensions and contingency factors.³⁸ These features of organization design interact with one another and can be adjusted to accomplish the purposes listed earlier in Exhibit 1.1.

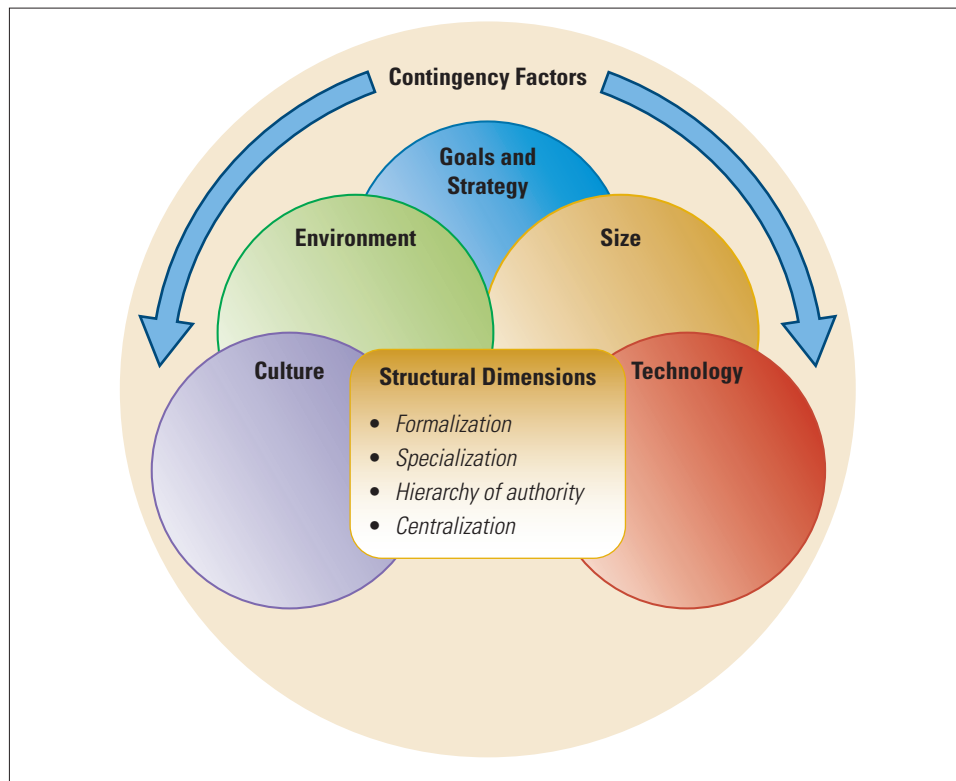


EXHIBIT 1.2

Interacting Structural Dimensions of Design and Contingency Factors

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Structural Dimensions

Key structural dimensions of organizations include formalization, specialization, hierarchy of authority, and centralization.

1. *Formalization* pertains to the amount of written documentation in the organization. Documentation includes procedures, job descriptions, regulations, and policy manuals. These written documents describe behavior and activities. Formalization is often measured by simply counting the number of pages of documentation within the organization. Large universities, for example, tend to be high on formalization because they have several volumes of written rules for such things as registration, dropping and adding classes, student associations, dormitory governance, and financial assistance. A small, family-owned business, in contrast, may have almost no written rules and would be considered informal.
2. *Specialization* is the degree to which organizational tasks are subdivided into separate jobs. If specialization is extensive, each employee performs only a narrow range of tasks. If specialization is low, employees perform a wide range of tasks in their jobs. Specialization is sometimes referred to as the *division of labor*.
3. *Hierarchy of authority* describes who reports to whom and the span of control for each manager. The hierarchy is depicted by the vertical lines on an organization chart, as illustrated in Exhibit 1.3. The hierarchy is related to *span of control* (the number of employees reporting to a supervisor). When spans of control are narrow, the hierarchy tends to be tall. When spans of control are wide, the hierarchy of authority will be shorter.
4. *Centralization* refers to the hierarchical level that has authority to make decisions. When decision making is kept at the top level, the organization is centralized. When decisions are delegated to lower organizational levels, it is decentralized. Examples of organizational decisions that might be centralized or decentralized include purchasing equipment, establishing goals, choosing suppliers, setting prices, hiring employees, and deciding marketing territories.

To understand the importance of paying attention to structural dimensions of organization design, think about what happened at the BP-Transocean Deepwater Horizon oil rig.

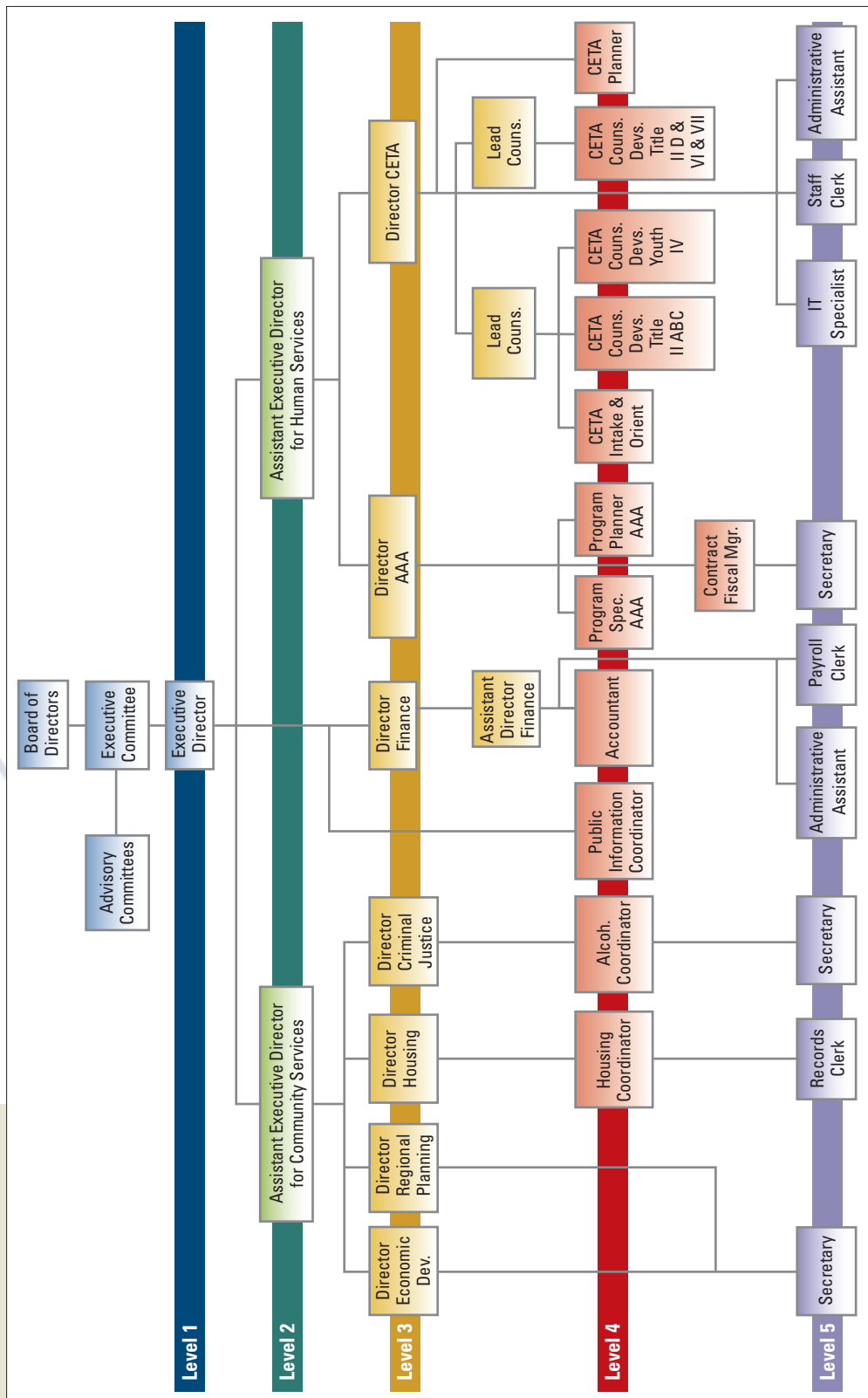
BP Transocean Deepwater Horizon Oil Rig

IN PRACTICE

In the spring of 2010, a Transocean oil rig drilling a well for oil giant BP at Deepwater Horizon exploded in the Gulf of Mexico, killing 11 crew members and setting off an environmental disaster. Setting aside the question of what caused the explosion in the first place, once it happened the structure aboard the rig exacerbated the situation. Activities were so loosely organized that no one seemed to know who was in charge or what their level of authority and responsibility was. When the explosion occurred, confusion reigned. Twenty-three-year-old Andrea Fleytas issued a mayday (distress signal) over the radio when she realized no one else had done so, but she was chastised for overstepping her authority. One manager said he didn't call for help because he wasn't sure he had authorization to do so. Still another said he tried to call to shore but was told the order needed to come from someone else. Crew members knew the emergency shutdown needed to be triggered, but there was confusion over who had the authority to give the OK. As fire spread, several minutes passed before people received directions to evacuate.

EXHIBIT 1.3

Organization Chart
Illustrating the Hierarchy
of Authority for a Com-
munity Job Training
Program



Again, an alarmed Fleytas turned on the public address system and announced that the crew was abandoning the rig. “The scene was very chaotic,” said worker Carlos Ramos. “There was no chain of command. Nobody in charge.”

In the aftermath of the explosion and oil spill, several federal agencies are also on the hot seat because of loose oversight and confusion over responsibility that led to delays and disagreements that prolonged the suffering of local communities. A federal law put in place after the 1989 Exxon Valdez oil spill requires national and regional plans laying out clear lines of authority and responsibility for everyone involved should such an event occur. However, the plans were confusing, faulty, or inadequate when it actually happened. For example, weeks after the rig sank, oil was seeping into the marshes around Grand Isle, Louisiana, but the boats supposed to be laying out boom to corral the oil were gathered on the wrong side of the bay. No one knew who had the authority to move them into the right area. At the Senate hearing seven weeks after the explosion that started the whole mess, Billy Nungesser, the president of Plaquemines Parish, Louisiana, said, “I still don’t know who’s in charge. Is it BP? Is it the Coast Guard?” Senator Bill Nelson of Florida captured the problem of poor structural design when he said, “The information is not flowing. The decisions are not timely. The resources are not produced. And as a result, you have a big mess.”³⁹

Contingency Factors

Understanding structural dimensions alone does not help us understand or appropriately design organizations. It is also necessary to look at contingency factors, including size, organizational technology, the external environment, goals and strategy, and organizational culture.

1. *Size* can be measured for the organization as a whole or for specific components, such as a plant or division. Because organizations are social systems, size is typically measured by the number of employees. Other measures such as total sales or total assets also reflect magnitude, but they do not indicate the size of the human part of the system.
2. *Organizational technology* refers to the tools, techniques, and actions used to transform inputs into outputs. It concerns how the organization actually produces the products and services it provides for customers and includes such things as flexible manufacturing, advanced information systems, and the Internet. An automobile assembly line, a college classroom, and an overnight package delivery system are technologies, although they differ from one another.
3. The *environment* includes all elements outside the boundary of the organization. Key elements include the industry, government, customers, suppliers, and the financial community. The environmental elements that affect an organization the most are often other organizations.
4. The organization’s *goals and strategy* define the purpose and competitive techniques that set it apart from other organizations. Goals are often written down as an enduring statement of company intent. A strategy is the plan of action that describes resource allocation and activities for dealing with the environment and for reaching the organization’s goals. Goals and strategies define the scope of operations and the relationship with employees, customers, and competitors.
5. An organization’s *culture* is the underlying set of key values, beliefs, understandings, and norms shared by employees. These underlying values and norms may

BRIEFCASE



As an organization manager, keep these guidelines in mind:

Think of the organization as a means to an end. It is a way to organize people and resources to accomplish a specific purpose. Describe the organization according to its degree of formalization, specialization, centralization, and hierarchy. Look at contingency factors of size, technology, the environment, goals and strategy, and the organizational culture.

pertain to ethical behavior, commitment to employees, efficiency, or customer service, and they provide the glue to hold organization members together. An organization's culture is unwritten but can be observed in its stories, slogans, ceremonies, dress, and office layout.

The four structural dimensions and five contingency factors discussed here are interdependent. Certain contingency factors will influence the appropriate degree of specialization, formalization, and so forth for the organization. For example, large organization size, a routine technology, and a stable environment all tend to create an organization that has greater formalization, specialization, and centralization. More detailed relationships among contingency factors and structural dimensions are explored throughout this book.

I An organization can be understood primarily by understanding the people who make it up.

ANSWER: *Disagree.* An organization has distinct characteristics that are independent of the nature of the people who make it up. All the people could be replaced over time while an organization's structural dimensions and contingency factors would remain similar.

ASSESS
YOUR
ANSWER

The organizational features illustrated in Exhibit 1.2 provide a basis for measuring and analyzing characteristics that cannot be seen by the casual observer, and they reveal significant information about an organization. Consider, for example, the dimensions of Ternary Software compared with those of Walmart and a governmental agency.

IN PRACTICE

Brian Robertson is one of the founders of Ternary Software and holds the title of CEO. But as for having the power and authority typically granted to a top executive, forget about it. Consider a recent strategy meeting where a programmer criticized Robertson's plan to replace the company's profit-sharing program with an ad hoc bonus system based on performance. After much discussion, the CEO's plan was soundly rejected in favor of keeping the profit-sharing program and using monthly bonus incentives.

At Ternary, a company that writes software on contract for other organizations, everyone has a voice in making important decisions. A seven-member policy-setting team that includes two frontline workers elected by their peers consults with other teams throughout the company, ultimately giving every employee a chance to participate in decision making. Meetings are highly informal and people are invited to share feelings as well as business ideas. Any time a new item on the agenda is brought up for discussion, each person is asked for his or her gut reaction. Then, people get to state objections, offer alternative ideas, rework proposals, and perhaps throw out management's suggestions and plans.

Contrast Ternary's approach to that of Walmart, which achieves its competitive edge through internal cost efficiency. A standard formula is used to build each store, with uniform displays and merchandise. Walmart's administrative expenses are the lowest of any chain. The distribution system is a marvel of efficiency. Goods can be delivered to any store in less than two days after an order is placed. Stores are controlled from the top,

**Ternary
Software
Inc.**

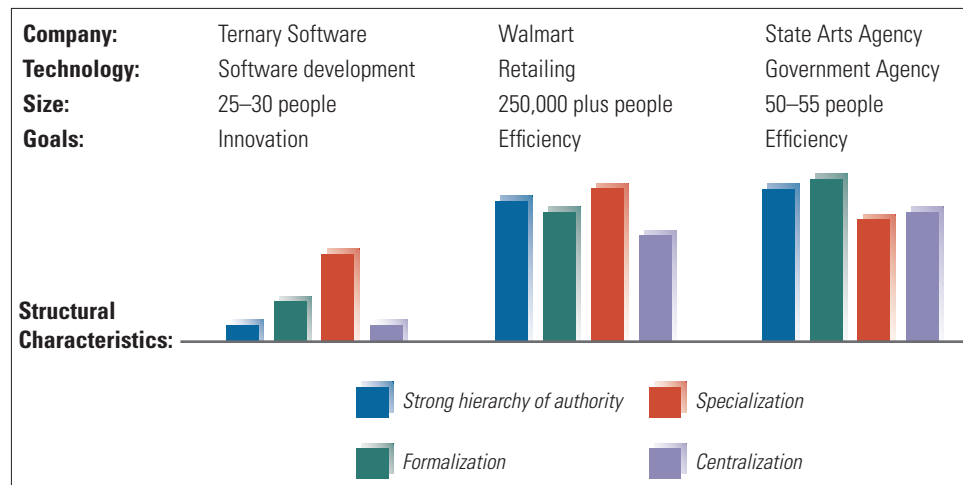
although store managers have some freedom to adapt to local conditions. Employees follow standard procedures set by management and have little say in decision making. However, performance is typically high, and most employees consider that the company treats them fairly.

An even greater contrast is seen in many government agencies or nonprofit organizations that rely heavily on public funding. Most state humanities and arts agencies, for example, are staffed by a small number of highly trained employees, but workers are overwhelmed with rules and regulations and swamped by paperwork. Employees who have to implement rule changes often don't have time to read the continuous stream of memos and still keep up with their daily work. Employees must require extensive reporting from their clients in order to make regular reports to a variety of state and federal funding sources.⁴⁰

Exhibit 1.4 illustrates several structural dimensions and contingency factors of Ternary Software, Walmart, and the state arts agency. Ternary is a small organization that ranks very low with respect to formalization and centralization and has a medium degree of specialization. Horizontal collaboration to serve customers with innovative products is emphasized over the vertical hierarchy. Walmart is much more formalized, specialized, and centralized, with a strong vertical hierarchy. Efficiency is more important than new products and services, so most activities are guided by standard regulations. The arts agency, in contrast to the other organizations, reflects its status as a small part of a large government bureaucracy. The agency is overwhelmed with rules and standard procedures. Rules are dictated from the top and communication flows down a strong vertical chain of command.

Structural dimensions and contingency factors can thus tell a lot about an organization and about differences among organizations. These various organization design features are examined in more detail in later chapters to determine the appropriate level of each structural dimension needed to perform effectively based on various contingency factors.

EXHIBIT 1.4
Differing Characteristics
of Three Organizations



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Performance and Effectiveness Outcomes

The whole point of understanding structural dimensions and contingency factors is to design the organization in such a way as to achieve high performance and effectiveness. Managers adjust various aspects of the organization to most efficiently and effectively transform inputs into outputs and provide value. **Efficiency** refers to the amount of resources used to achieve the organization's goals. It is based on the quantity of raw materials, money, and employees necessary to produce a given level of output. **Effectiveness** is a broader term, meaning the degree to which an organization achieves its goals.

To be effective, organizations need clear, focused goals and appropriate strategies for achieving them. The concept of effectiveness, including goals and strategies and various approaches to measuring effectiveness, will be discussed in detail in Chapter 2. Many organizations apply new technology to improve efficiency and effectiveness. To increase efficiency during the recent recession, Deloitte LLP cut travel budgets for consultants and began using Web and video conferencing for meetings that don't involve clients.⁴¹ A physician's office in Philadelphia increased efficiency by using information technology to reduce paperwork and streamline procedures, enabling the practice to handle more patients with three fewer office employees. The new system improved effectiveness too. Staff can locate information more quickly and make fewer mistakes, leading to a higher quality of care and better customer service.⁴²

Achieving effectiveness is not always a simple matter because different people want different things from the organization. For customers, the primary concern is high-quality products and services at a reasonable price, whereas employees are mostly concerned with adequate pay, good working conditions, and job satisfaction. Managers carefully balance the needs and interests of various *stakeholders* in setting goals and striving for effectiveness. This is referred to as the **stakeholder approach**, which integrates diverse organizational activities by looking at various organizational stakeholders and what they want from the organization. A **stakeholder** is any group within or outside of the organization that has a stake in the organization's performance. The satisfaction level of each group can be assessed as an indication of the organization's performance and effectiveness.⁴³

2 The primary role of managers in business organizations is to achieve maximum efficiency.

ANSWER: *Disagree.* Efficiency is important, but organizations must respond to a variety of stakeholders, who may want different things from the organization. Managers strive for both efficiency and effectiveness in trying to meet the needs and interests of stakeholders. Effectiveness is often considered more important than efficiency.



Exhibit 1.5 illustrates various stakeholders and what each group wants from the organization. Stakeholder interests sometimes conflict, and organizations often find it difficult to simultaneously satisfy the demands of all groups. A business might have high customer satisfaction, but the organization might have difficulties with creditors or supplier relationships might be poor. Consider Walmart. Customers

EXHIBIT 1.5Major Stakeholder Groups
and What They Expect

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love its efficiency and low prices, but the low-cost emphasis has caused friction with suppliers. Some activist groups argue that Walmart's tactics are unethical because they force suppliers to lay off workers, close factories, and outsource to manufacturers from low-wage countries. One supplier said clothing is being sold at Walmart so cheaply that many U.S. companies couldn't compete even if they paid their workers nothing. The challenges of managing such a huge organization have also led to strains in relationships with employees and other stakeholder groups, as evidenced by recent gender discrimination suits and complaints about low wages and poor benefits.⁴⁴ The example of Walmart provides a glimpse of how difficult it can be for managers to satisfy multiple stakeholders. In all organizations, managers have to evaluate stakeholder concerns and establish goals that can achieve at least minimal satisfaction for major stakeholder groups.

The Evolution of Organization Theory and Design

Organization theory is not a collection of facts; it is a way of thinking about organizations and how people and resources are organized to collectively accomplish a specific purpose.⁴⁵ Organization theory is a way to see and analyze organizations more accurately and deeply than one otherwise could. The way to see and think

about organizations is based on patterns and regularities in organizational design and behavior. Organization scholars search for these regularities, define them, measure them, and make them available to the rest of us. The facts from the research are not as important as the general patterns and insights into organizational functioning gained from a comparative study of organizations. Insights from organization design research can help managers improve organizational efficiency and effectiveness, as well as strengthen the quality of organizational life.⁴⁶ One area of insight is how organization design and management practices have varied over time in response to changes in the larger society.

Historical Perspectives

You may recall from an earlier management course that the modern era of management theory began with the classical management perspective in the late nineteenth and early twentieth century. The emergence of the factory system during the Industrial Revolution posed problems that earlier organizations had not encountered. As work was performed on a much larger scale by a larger number of workers, people began thinking about how to design and manage work in order to increase productivity and help organizations attain maximum efficiency. The classical perspective, which sought to make organizations run like efficient, well-oiled machines, is associated with the development of hierarchy and bureaucratic organizations and remains the basis of much of modern management theory and practice. In this section, we will examine the classical perspective, with its emphasis on efficiency and organization, as well as other perspectives that emerged to address new concerns, such as employee needs and the role of the environment. Elements of each perspective are still used in organization design, although they have been adapted and revised to meet changing needs. These different perspectives can also be associated with different ways in which managers think about and view the organization, called manager frame of reference. Complete the questionnaire in the “How Do You Fit the Design?” box on page 26 to understand your frame of reference.

Efficiency Is Everything. Pioneered by Frederick Winslow Taylor, **scientific management** emphasizes scientifically determined jobs and management practices as the way to improve efficiency and labor productivity. Taylor proposed that workers “could be retooled like machines, their physical and mental gears recalibrated for better productivity.”⁴⁷ He insisted that management itself would have to change and emphasized that decisions based on rules of thumb and tradition should be replaced with precise procedures developed after careful study of individual situations.⁴⁸ To use this approach, managers develop precise, standard procedures for doing each job, select workers with appropriate abilities, train workers in the standard procedures, carefully plan work, and provide wage incentives to increase output.

Taylor’s approach is illustrated by the unloading of iron from railcars and re-loading finished steel for the Bethlehem Steel plant in 1898. Taylor calculated that with correct movements, tools, and sequencing, each man was capable of loading 47.5 tons per day instead of the typical 12.5 tons. He also worked out an incentive system that paid each man \$1.85 per day for meeting the new standard, an increase from the previous rate of \$1.15. Productivity at Bethlehem Steel shot up overnight. These insights helped to establish organizational assumptions that the role of management is to maintain stability and efficiency, with top managers doing the thinking and workers doing what they are told.

How Do You Fit the Design?

EVOLUTION OF STYLE

This questionnaire asks you to describe yourself. For each item, give the number “4” to the phrase that best describes you, “3” to the item that is next best, and on down to “1” for the item that is least like you.

- My strongest skills are:
 - Analytical skills
 - Interpersonal skills
 - Political skills
 - Flair for drama
- The best way to describe me is:
 - Technical expert
 - Good listener
 - Skilled negotiator
 - Inspirational leader
- What has helped me the most to be successful is my ability to:
 - Make good decisions
 - Coach and develop people
 - Build strong alliances and a power base
 - Inspire and excite others
- What people are most likely to notice about me is my:
 - Attention to detail
 - Concern for people
 - Ability to succeed in the face of conflict and opposition
 - Charisma
- My most important leadership trait is:
 - Clear, logical thinking
 - Caring and support for others
 - Toughness and aggressiveness
 - Imagination and creativity
- I am best described as:
 - An analyst
 - A humanist
 - A politician
 - A visionary

Scoring: Compute your scores according to the following rater. The higher score represents your way of viewing the organization and will influence your management style.

$$\text{Structure} = 1a + 2a + 3a + 4a + 5a + 6a = \underline{\hspace{2cm}}$$

$$\text{Human Resource} = 1b + 2b + 3b + 4b + 5b + 6b = \underline{\hspace{2cm}}$$

$$\text{Political} = 1c + 2c + 3c + 4c + 5c + 6c = \underline{\hspace{2cm}}$$

$$\text{Symbolic} = 1d + 2d + 3d + 4d + 5d + 6d = \underline{\hspace{2cm}}$$

Interpretation: Organization managers typically view their world through one or more mental frames of reference. (1) The *structural frame* of reference sees the organization as a machine that can be economically efficient with vertical hierarchy and routine tasks that give a manager the formal authority to achieve goals. This manager way of thinking became strong during the era of scientific management when efficiency was everything. (2) The *human resource frame* sees the organization as its people, with manager emphasis given to support, empowerment, and belonging. This manager way of thinking gained importance after the Hawthorne studies. (3) The *political frame* sees the organization as a competition for scarce resources to achieve goals, with manager emphasis on building agreement among diverse groups. This frame of reference reflects the need for organizations to share information, have a collaborative strategy, and to have all parts working together. (4) The *symbolic frame* sees the organization as theater, with manager emphasis on symbols, vision, culture, and inspiration. This manager frame of reference is important for managing an adaptive culture in a learning organization.

Which frame reflects your way of viewing the world? The first two frames of reference—structural and human resource—are important for newer managers at the lower and middle levels of an organization. These two frames usually are mastered first. As managers gain experience and move up the organization, they should acquire political and collaborative skills (Chapter 13) and also learn to use symbols to shape cultural values (Chapter 10). It is important for managers not to be stuck in one way of viewing the organization because their progress may be limited.

Source: Roy G. Williams and Terrence E. Deal, *When Opposites Dance: Balancing the Manager and Leader Within* (Palo Alto, CA: Davies-Black, 2003), pp. 24–28. Reprinted with permission.

The ideas of creating a system for maximum efficiency and organizing work for maximum productivity are deeply embedded in our organizations. A *Harvard Business Review* article discussing innovations that shaped modern management puts scientific management at the top of its list of 12 influential innovations.⁴⁹

How to Get Organized. Another subfield of the classical perspective took a broader look at the organization. Whereas scientific management focused primarily on the technical core—on work performed on the shop floor—**administrative principles** looked at the design and functioning of the organization as a whole. For example, Henri Fayol proposed 14 principles of management, such as “each subordinate receives orders from only one superior” (unity of command) and “similar activities in an organization should be grouped together under one manager” (unity of direction). These principles formed the foundation for modern management practice and organization design.

The scientific management and administrative principles approaches were powerful and gave organizations fundamental new ideas for establishing high productivity and increasing prosperity. Administrative principles in particular contributed to the development of **bureaucratic organizations**, which emphasized designing and managing organizations on an impersonal, rational basis through such elements as clearly defined authority and responsibility, formal recordkeeping, and uniform application of standard rules. Although the term *bureaucracy* has taken on negative connotations in today’s organizations, bureaucratic characteristics worked extremely well for the needs of the Industrial Age. One problem with the classical perspective, however, is that it failed to consider the social context and human needs.

What about People? Early work on industrial psychology and human relations received little attention because of the prominence of scientific management. However, a major breakthrough occurred with a series of experiments at a Chicago electric company, which came to be known as the **Hawthorne Studies**. Interpretations of these studies at the time concluded that positive treatment of employees improved their motivation and productivity. The publication of these findings led to a revolution in worker treatment and laid the groundwork for subsequent work examining treatment of workers, leadership, motivation, and human resource management. These human relations and behavioral approaches added new and important contributions to the study of management and organizations.

However, the hierarchical system and bureaucratic approaches that developed during the Industrial Revolution remained the primary approach to organization design and functioning well into the 1980s. In general, this approach worked well for most organizations until the past few decades. During the 1980s, though, it began to cause problems. Increased competition, especially on a global scale, changed the playing field.⁵⁰ North American companies had to find a better way.

Can Bureaucracies Be Flexible? The 1980s produced new corporate cultures that valued lean staff, flexibility and learning, rapid response to the customer, engaged employees, and quality products. Organizations began experimenting with teams, flattened hierarchies, and participative management approaches. For example, in 1983, a DuPont plant in Martinsville, Virginia, cut management layers from eight to four and began using teams of production employees to solve problems and take

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As an organization manager, keep these guidelines in mind:

Be cautious when applying something that works in one situation to another situation. All organizational systems are not the same. Use organization theory to identify the correct structure and management systems for each organization.

over routine management tasks. The new design led to improved quality, decreased costs, and enhanced innovation, helping the plant be more competitive in a changed environment.⁵¹ Rather than relying on strict rules and hierarchy, managers began looking at the entire organizational system, including the external environment.

Since the 1980s, organizations have undergone even more profound and far-reaching changes. Flexible approaches to organization design have become prevalent. Recent influences on the shifting of organization design include the Internet and other advances in communications and information technology; globalization and the increasing interconnection of organizations; the rising educational level of employees and their growing quality-of-life expectations; and the growth of knowledge- and information-based work as primary organizational activities.⁵²

It All Depends: Key Contingencies

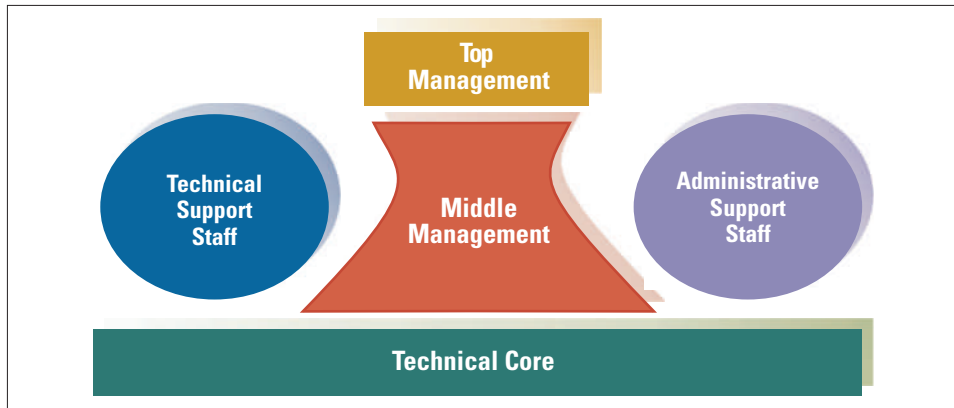
Many problems occur when all organizations are treated as similar, which was the case with scientific management and administrative principles that attempted to design all organizations alike. The structures and systems that work in the retail division of a conglomerate will not be appropriate for the manufacturing division. The organization charts and financial procedures that are best for an entrepreneurial Internet firm like Twitter will not work for a large food processing plant at Kraft or a large nonprofit organization such as the United Way.

A basic premise of this text is that effective organization design means understanding various contingencies and how organizations can be designed to fit contingency factors. **Contingency** means that one thing depends on other things, and for organizations to be effective there must be a “goodness of fit” between their structure and various contingency factors.⁵³ What works in one setting may not work in another setting. There is no “one best way.” Contingency theory means *it depends*. For example, a government agency may experience a certain environment, use a routine technology, and desire efficiency. In this situation, a management approach that uses bureaucratic control procedures, a hierarchical structure, and formalized communications would be appropriate. Likewise, a free-flowing design and management processes work best in a high-tech company that faces an uncertain environment with a non-routine technology. The correct approach is contingent on the organization’s situation. Later in the chapter, we will examine two fundamental approaches to organization design, along with the typical contingency factors associated with each approach.

An Example of Organizational Configuration

An important insight from organization design researchers is how organizations are configured—that is, what parts make up an organization and how do the various parts fit together? An organization’s design or configuration will reflect contingency factors along recognizable patterns. One framework proposed by Henry Mintzberg suggests that every organization has five parts.⁵⁴ These parts, illustrated in Exhibit 1.6, include the technical core, top management, middle management, technical support, and administrative support.

Technical Core. The technical core includes people who do the basic work of the organization. This part actually produces the product and service outputs of the



Source: Based on Henry Mintzberg, *The Structuring of Organizations* (Englewood Cliffs, N.J.: Prentice-Hall, 1979), 215–297; and Henry Mintzberg, “Organization Design: Fashion or Fit?” *Harvard Business Review* 59 (January-February 1981), 103–116.

organization. This is where the primary transformation from inputs to outputs takes place. The technical core is the production department in a manufacturing firm, the teachers and classes in a university, and the medical activities in a hospital.

Technical Support. The technical support function helps the organization adapt to the environment. Technical support employees such as engineers, researchers, and information technology professionals scan the environment for problems, opportunities, and technological developments. Technical support is responsible for creating innovations in the technical core, helping the organization change and adapt.

Administrative Support. The administrative support function is responsible for the smooth operation and upkeep of the organization, including its physical and human elements. This includes human resource activities such as recruiting and hiring, establishing compensation and benefits, and employee training and development, as well as maintenance activities such as cleaning of buildings and service and repair of machines.

Management. Management is a distinct function, responsible for directing and coordinating other parts of the organization. Top management provides direction, planning, strategy, goals, and policies for the entire organization or major divisions. Middle management is responsible for implementation and coordination at the departmental level. In traditional organizations, middle managers are responsible for mediating between top management and the technical core, such as implementing rules and passing information up and down the hierarchy.

3 A CEO’s top priority is to make sure the organization is designed correctly.

ANSWER: Agree. Top managers have many responsibilities, but one of the most important is making sure the organization is designed correctly. Organization design organizes and focuses people’s work and shapes their response to customers and other stakeholders. Managers consider both structural dimensions and contingency factors as well as make sure the various parts of the organization work together to achieve important goals.

EXHIBIT 1.6

Five Basic Parts of an Organization

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As an organization manager, keep these guidelines in mind:

When designing an organization, consider five basic parts—technical core, technical support, administrative support, top management, and middle management—and how they work together for maximum organizational effectiveness.

**ASSESS
YOUR
ANSWER**

BRIEFCASE



As an organization manager, keep these guidelines in mind:

Think about whether the organization should have a mostly mechanistic design (associated with large size, efficiency strategy, a stable environment, a rigid culture, and a manufacturing technology) or a mostly organic design (associated with smaller size, innovation strategy, a changing environment, an adaptive culture, and a service technology).

The size and interaction of these five parts can vary widely among organizations. One organization might have a large technical support staff and minimal administrative support staff, whereas the reverse might be true for another company. In real-life organizations, the five parts are interrelated and often serve more than one function. For example, managers coordinate and direct parts of the organization, but they may also be involved in administrative and technical support. The point is that understanding these five parts provides a way to think about the various human components that make up an organization.

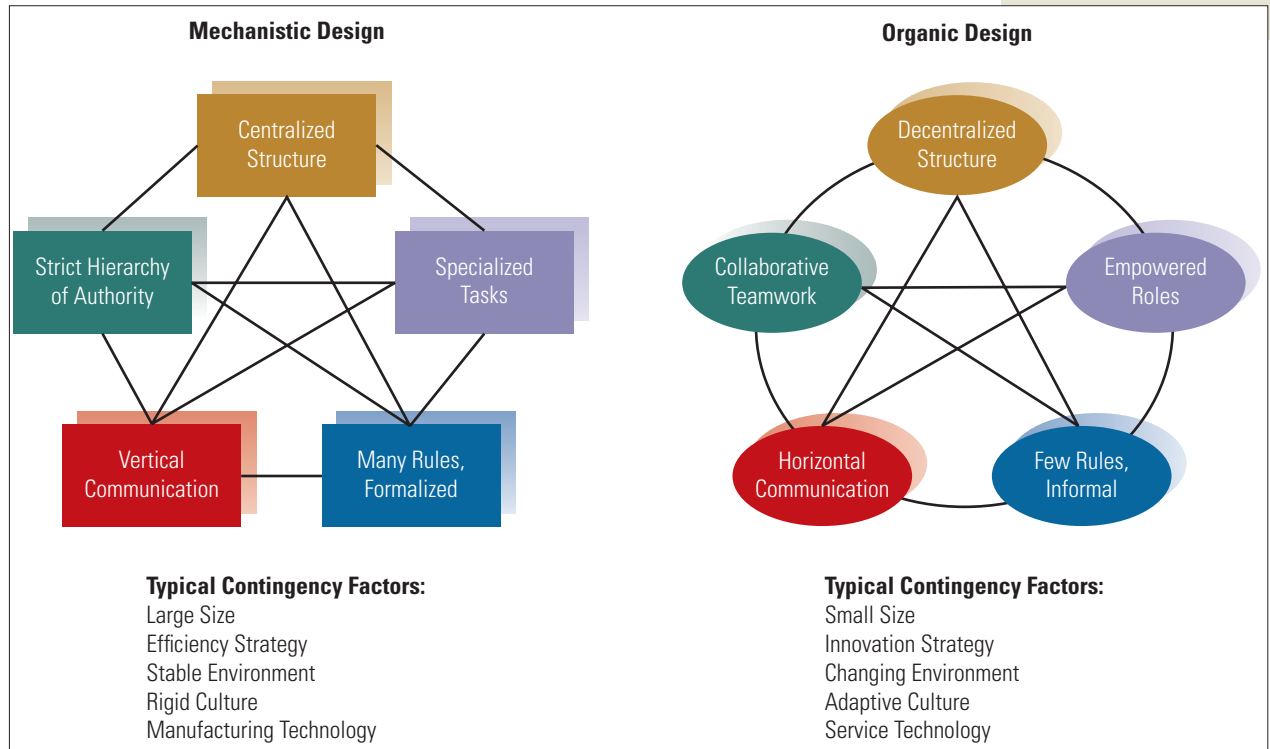
Organic and Mechanistic Designs

Organizations can also be categorized along a continuum ranging from a mechanistic design to an organic design. Tom Burns and G.M. Stalker first used the terms organic and mechanistic to describe two extremes of organization design after observing industrial firms in England.⁵⁵ In general, a **mechanistic** design means that the organization is characterized by machine-like standard rules, procedures, and a clear hierarchy of authority. Organizations are highly formalized and are also centralized, with most decisions made at the top. An **organic** design means that the organization is much looser, free-flowing, and adaptive. Rules and regulations often are not written down or, if written down, are flexibly applied. People may have to find their own way through the system to figure out what to do. The hierarchy of authority is looser and not clear-cut. Decision-making authority is decentralized.

Various contingency factors will influence whether an organization is more effective with a primarily mechanistic or a primarily organic design. Exhibit 1.7 summarizes the differences in organic and mechanistic designs based on five elements: structure, tasks, formalization, communication, and hierarchy. The exhibit also lists the typical contingency factors associated with each type of design.

- *Centralized Versus Decentralized Structure.* Centralization and decentralization pertain to the hierarchical level at which decisions are made. In a mechanistic design, the structure is centralized, whereas an organic design uses decentralized decision making. **Centralization** means that decision authority is located near the top of the organizational hierarchy. Knowledge and control of activities are centralized at the top of the organization, and employees are expected to do as they are told. With **decentralization**, decision making authority is pushed down to lower organizational levels. In a highly organic organization, knowledge and control of activities are located with employees rather than with supervisors or top executives. People are encouraged to take care of problems by working with one another and with customers, using their discretion to make decisions.
- *Specialized Tasks Versus Empowered Roles.* A **task** is a narrowly defined piece of work assigned to a person. With a mechanistic design, tasks are broken down into specialized, separate parts, as in a machine, with each employee performing activities according to a specific job description. A **role**, in contrast, is a part in a dynamic social system. A role has discretion and responsibility, allowing the person to use his or her discretion and ability to achieve an outcome or meet a goal. In an organization with an organic design, employees play a role in the team or department and roles may be continually redefined or adjusted.

EXHIBIT 1.7
Organic and
Mechanistic Designs



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- *Formal Versus Informal Systems.* With a mechanistic design, there are numerous rules, regulations, and standard procedures. Formal systems are in place to manage information, guide communication, and detect deviations from established standards and goals. With an organic design, on the other hand, there are few rules or formal control systems. Communication and information sharing is informal.
- *Vertical Versus Horizontal Communication.* Mechanistic organizations emphasize vertical communication up and down the hierarchy. Top managers pass information downward to employees about goals and strategies, job instructions, procedures, and so forth, and in turn ask that employees provide information up the hierarchy concerning problems, performance reports, financial information, suggestions and ideas, and so forth. In an organic organization, there is greater emphasis on horizontal communication, with information flowing in all directions within and across departments and hierarchical levels. The widespread sharing of information enables all employees to have complete information about the company so they can act quickly. In addition, organic organizations maintain open lines of communication with customers, suppliers, and even competitors to enhance learning capability.
- *Hierarchy of Authority Versus Collaborative Teamwork.* In organizations with a mechanistic design, there is a close adherence to vertical hierarchy and the formal chain of command. Work activities are typically organized by common

function from the bottom to the top of the organization and there is little collaboration across functional departments. The entire organization is controlled through the vertical hierarchy. An organic design, on the other hand, emphasizes collaborative teamwork rather than hierarchy. Structure is created around horizontal workflows or processes rather than departmental functions, with people working across department and organizational boundaries to solve problems. The vertical hierarchy is dramatically flattened, with perhaps only a few senior executives in traditional support functions such as finance or human resources. Self-directed teams are the fundamental work unit in highly organic organizations.

Contemporary Design Ideas

To some extent, organizations are still imprinted with the hierarchical, formalized, mechanistic approach that arose in the nineteenth century with Frederick Taylor. Yet current challenges require greater flexibility for most organizations. Cisco Systems provides an example of an organization where managers shifted from a mechanistic to an organic design to meet new contingencies.

Cisco Systems

IN PRACTICE

Cisco Systems started out as a typical hierarchical organization with a command-and-control mindset. Most decisions were made by top managers, and employees were expected to perform their jobs as directed, obey the rules, and follow formal procedures. That all changed after the dot-com bubble burst in the early 2000s and Cisco's stock dropped 86 percent virtually overnight.

CEO John Chambers believed the company needed a new approach to management and organization design if it was to survive. He knew collaborative teamwork would be required to get the company growing again. In addition, Chambers thought employees would be more creative, more productive, and more committed to rebuilding the organization if they had more autonomy and fewer limitations. So, he essentially threw out the old structures and controls. Now, rather than having proposals and suggestions sent to top executives for approval, a network of councils and boards that cross functional, departmental, and hierarchical lines are empowered to launch new businesses. One board made up of volunteer self-identified "sports freaks" built a product called StadiumVision, which allows venue owners to push video and digital content such as advertising to fans in the stadium. Now a multibillion-dollar business, StadiumVision came together in less than four months, without the CEO ever being involved in the decision.

Command and control is a thing of the past, Chambers asserts, with the future belonging to those companies that build leadership throughout the organization and take a more flexible and organic approach to design. The organic approach helped Cisco emerge from the dot-com crisis more profitable than ever and the company has since outperformed many technology rivals.⁵⁶

However, not every organization performs better with a strong organic design. Sometimes standard procedures, formal rules, and a more mechanistic approach serve an important function. As an illustration, after the spring 2011 earthquake and tsunami devastated areas of Japan, formal rules, orderly systems, and bureaucratic

procedures were critical to the smooth operation of evacuation centers. Not only did this mechanistic approach keep the centers running in an orderly fashion, but the rules, procedures, and top-down communication gave people a sense of normalcy and reassurance, helping to reduce psychological and physical stress.⁵⁷ Similarly, the organization aboard a nuclear aircraft carrier typically follows a mechanistic approach, with formal rules, a strict chain of command, and standard operating procedures. If people and activities are not well-ordered, too many things can quickly go awry when launching and landing planes from an oil-slicked deck in the middle of the ocean. Thus, mechanistic characteristics can be highly effective in the right situations. In general, however, most organizations are shifting toward more organic designs because of the turbulence of the external environment and the need for innovation, adaptability, and a fast response to customers or clients.⁵⁸ Organizations have to change as the environment changes because organizations are open systems.

Open Systems

The distinction between closed and open systems was a significant development in the study of organizations.⁵⁹ A **closed system** would not depend on or interact with the environment. It would be autonomous, closed off and sealed from the outside world. Although a true closed system cannot exist, early management and organization design concepts, such as scientific management, took a closed-systems approach by focusing on improving efficiency through modifications of internal systems. Yet to fully understand organizations requires viewing them as open systems. An **open system** must interact with the environment in order to survive. Open systems cannot seal themselves off and must continuously adapt to the environment.

To be successful, an organization must be managed as an open system. The organization has to find and obtain needed resources, interpret and act on environmental threats and opportunities, distribute products and services, and control and coordinate internal activities in the face of outside changes and uncertainty.

The term **system** means a set of interrelated parts that function as a whole to achieve a common purpose.⁶⁰ These interrelated parts of a system are called **subsystems**. Changes in one part of the system affect other parts, and managers need to understand the whole organization, rather than just the separate elements.⁶¹ Subsystems in an organization perform specific functions required for organizational survival, such as production, boundary spanning, maintenance, adaptation, and management. Boundary systems, for example, are responsible for exchanges with the external environment. They include activities such as purchasing supplies, marketing products and services, and competitive intelligence. These various subsystem functions are carried out by the five basic organizational parts described earlier and illustrated in Exhibit 1.6.

Chaos Theory

For most of the nineteenth and early twentieth centuries, mechanistic designs and closed-system thinking predominated. Newtonian science, which suggests that the world functions as a well-ordered machine, continued to guide managers' thinking about organizations.⁶² The environment was perceived as orderly and predictable, and the role of managers was to maintain stability. Organizations became large and complex, and boundaries between functional departments and between organizations were distinct. Internal structures grew more complex, vertical, and

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As an organization manager, keep these guidelines in mind:

Remember that organizations are open systems made up of various subsystems that perform functions such as production, boundary spanning, maintenance, adaptation, and management. Don't make changes in one subsystem of the organization without considering how the changes will affect other subsystems.

bureaucratic. Leadership was based on solid management principles and tended to be autocratic; communication was primarily through formal memos, letters, and reports. Managers did all the planning and “thought work,” while employees did the manual labor in exchange for wages and other compensation. This mechanistic approach worked quite well for the Industrial Age.⁶³

The environment for today’s companies, however, is anything but stable. With the turbulence of recent years, managers can no longer maintain an illusion of order and predictability. The science of **chaos theory** suggests that relationships in complex, open systems—including organizations—are nonlinear and made up of numerous interconnections and divergent choices that create unintended effects and render the whole unpredictable.⁶⁴ The world is full of uncertainty, characterized by surprise, rapid change, and confusion. Managers can’t measure, predict, or control in traditional ways the unfolding drama inside or outside the organization. However, chaos theory also recognizes that this randomness and disorder occurs within certain larger patterns of order. The ideas of chaos theory suggest that organizations should be viewed more as natural systems than as well-oiled, predictable machines, leading to an increase in the use of organic design approaches.

Framework for the Book

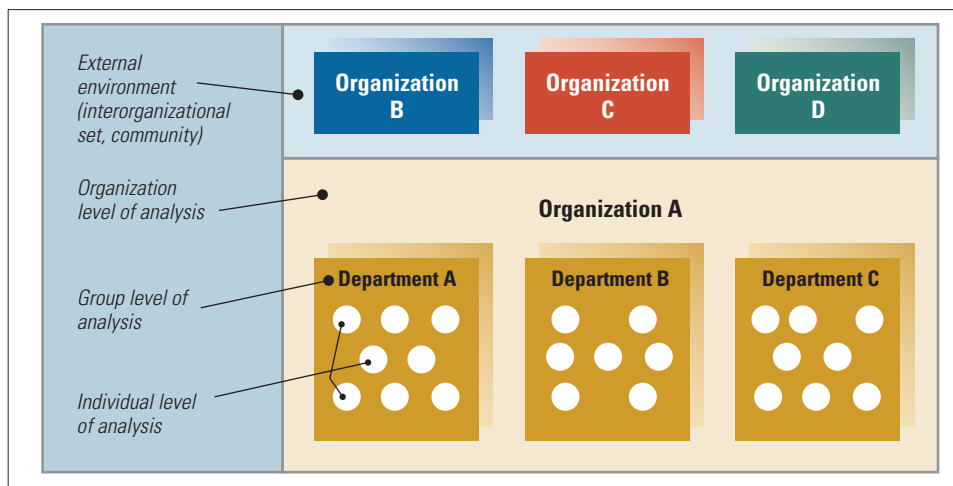
How does a course in organization theory differ from a course in management or organizational behavior? The answer is related to the concept called *level of analysis*.

Levels of Analysis

As just described, each organization is a system that is composed of various subsystems. Organization systems are nested within systems, and one **level of analysis** has to be chosen as the primary focus. Four levels of analysis normally characterize organizations, as illustrated in Exhibit 1.8. The individual human being is the basic building block of organizations. The human being is to the organization what a cell is to a biological system. The next higher system level is the group or department. These are collections of individuals who work together to perform group tasks.

EXHIBIT 1.8

Levels of Analysis in Organizations



Source: Based on Andrew H. Van De Ven and Diane L. Ferry, *Measuring and Assessing Performance* (New York: Wiley, 1980), 8; and Richard L. Daft and Richard M. Steers, *Organizations: A Micro/Macro Approach* (Glenview, IL: Scott, Foresman, 1986), 8.

The next level of analysis is the organization itself. An organization is a collection of groups or departments that combine into the total organization.

Organizations themselves can be grouped together into the next higher level of analysis, which is the inter-organizational set and community. The inter-organizational set is the group of organizations with which a single organization interacts. Other organizations in the community make up an important part of an organization's environment.

Organization theory focuses on the organizational level of analysis, but with concern for groups and the environment. To explain the organization, one should look not only at its characteristics but also at the characteristics of the environment and of the departments and groups that make up the organization. The focus of this book is to help you understand organizations by examining their specific characteristics, the nature of and relationships among groups and departments that make up the organization, and the collection of organizations that make up the environment.

Are individuals included in organization theory? Organization theory does consider the behavior of individuals, but in the aggregate. People are important, but they are not the primary focus of analysis. Organization theory is distinct from organizational behavior.

Organizational behavior is the micro approach to organizations because it focuses on the individuals within organizations as the relevant units of analysis. Organizational behavior examines concepts such as motivation, leadership style, and personality and is concerned with cognitive and emotional differences among people within organizations.

Organization theory is a macro examination of organizations because it analyzes the whole organization as a unit. Organization theory is concerned with people aggregated into departments and organizations and with the differences in structure and behavior at the organization level of analysis. Organization theory might be considered the sociology of organizations, while organizational behavior is the psychology of organizations.

Organization theory is directly relevant to top- and middle-management concerns and partly relevant to lower management. Top managers are responsible for the entire organization and must set goals, develop strategy, interpret the external environment, and decide organization structure and design. Middle management is concerned with major departments, such as marketing or research, and must decide how the department relates to the rest of the organization. Middle managers must design their departments to fit work-unit technology and deal with issues of power and politics, intergroup conflict, and information and control systems, each of which is part of organization theory. Organization theory is only partly concerned with lower management because this level of supervision is concerned with employees who operate machines, create services, or sell goods. Organization theory is concerned with the big picture of the organization and its major departments.

Plan of the Book

The topics within the field of organization theory and design are interrelated. Chapters are presented so that major ideas unfold in logical sequence. The framework that guides the organization of the book is shown in Exhibit 1.9. Part 1

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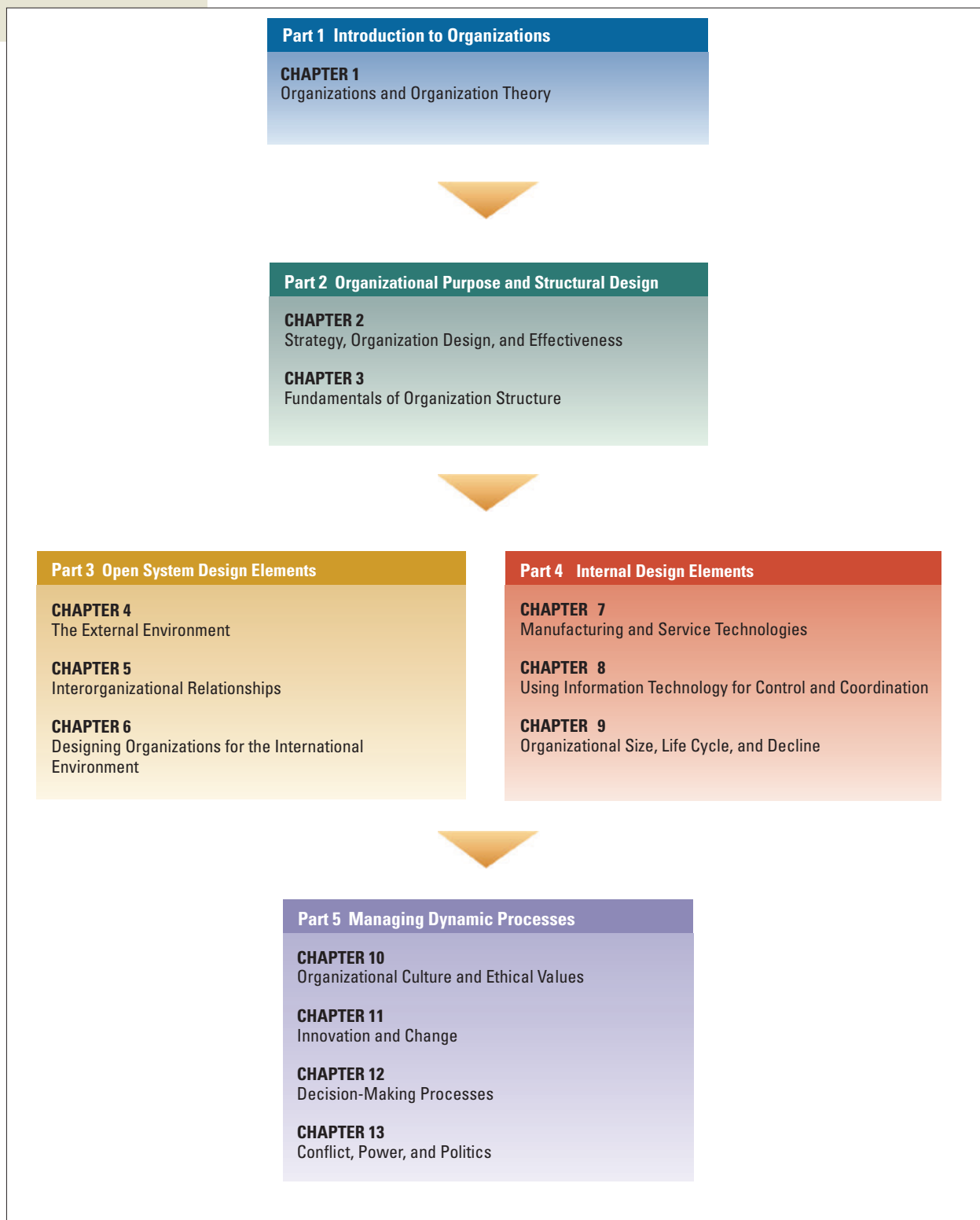


As an organization manager, keep this guideline in mind:

Make yourself a competent, influential manager by using the frameworks that organization theory provides to interpret and understand the organization around you.

EXHIBIT 1.9

Framework for the Book



introduces the basic idea of organizations as social systems and the essential concepts of organization theory and design. This discussion provides the groundwork for Part 2, which is about strategic management, goals and effectiveness, and the fundamentals of organization structure. This section examines how managers help the organization achieve its purpose, including the design of an appropriate structure, such as a functional, divisional, matrix, or horizontal structure. Part 3 looks at the various open system elements that influence organization structure and design, including the external environment, inter-organizational relationships, and the global environment.

Parts 4 and 5 look at processes inside the organization. Part 4 describes how organization design is related to the contingency factors of manufacturing and service technology, and organizational size and life cycle. Part 5 shifts to dynamic processes that exist within and between major organizational departments and includes topics such as innovation and change, culture and ethical values, decision-making processes, managing intergroup conflict, and power and politics.

Plan of Each Chapter

Each chapter begins with opening questions to immediately engage the student in the chapter content. Theoretical concepts are introduced and explained in the body of the chapter. Several *In Practice* segments are included in each chapter to illustrate the concepts and show how they apply to real organizations. Each chapter also contains a *How Do You Fit the Design?* questionnaire that draws students more deeply into a particular topic and enables them to experience organization design issues in a personal way. A *Book Mark* is included in each chapter to present organizational issues that today's managers face in the real world. These short book reviews discuss current concepts and applications to deepen and enrich the student's understanding of organizations. The examples and book reviews illustrate the dramatic changes taking place in management thinking and practice. Key points for designing and managing organizations are highlighted in the *Briefcase* items throughout the chapter. Each chapter closes with a *Design Essentials* section that reviews and explains important theoretical concepts.

Design Essentials

- Organization theory provides tools to understand, design, and manage organizations more effectively, including issues such as how to adapt to a changing environment, cope with increasing size and complexity, manage internal conflict and coordination, and shape the right kind of culture to meet goals.
- Managers today face new challenges, including globalization, intense competition, rigorous ethical scrutiny and the demand for sustainability, a need for rapid response, adapting to the digital world, and increasing diversity.
- Organizations are highly important, and managers are responsible for shaping organizations to perform well and meet the needs of society. The structural dimensions of formalization, specialization, hierarchy of authority, and centralization and the contingency factors of size, organizational technology, environment, goals and strategy, and culture provide labels for measuring and analyzing organizations.

These characteristics vary widely from organization to organization. Subsequent chapters provide frameworks for analyzing organizations with these concepts.

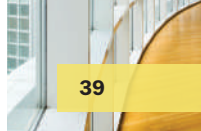
- Many types of organizations exist. One important distinction is between for-profit businesses, in which managers direct their activities toward earning money for the company, and nonprofit organizations, in which managers direct their efforts toward generating some kind of social impact. Managers strive to design organizations to achieve both efficiency and effectiveness. Effectiveness is complex because different stakeholders have different interests and needs that they want satisfied by the organization.
- Organization design perspectives have varied over time. Managers can understand organizations better by gaining a historical perspective and by understanding the basics of organizational configuration. Five parts of the organization are the technical core, top management, middle management, technical support, and administrative support. Different configurations of these parts help organizations meet different needs.
- Organization designs fall on a scale ranging from mechanistic to organic. A mechanistic design is characterized by a centralized structure, specialized tasks, formal systems, vertical communication, and a strict hierarchy of authority. An organic design is characterized by a decentralized structure, empowered roles, informal systems, horizontal communication, and collaborative teamwork. Challenges in today's environment are causing many organizations to shift to more organic designs, although mechanistic characteristics are still valuable for some situations.
- Organizations are open systems that must interact with the environment. A system is a set of interrelated parts that function as a whole to achieve a common purpose. The interrelated parts of a system are called subsystems. Subsystems perform specific functions such as production, boundary spanning, maintenance, adaptation, and management.
- Most concepts in organization theory pertain to the top- and middle-management levels of the organization. This book is concerned more with the topics of those levels than with the operational-level topics of supervision and motivation of employees, which are discussed in courses on organizational behavior.

Key Concepts

administrative principles
bureaucratic organizations
centralization
chaos theory
closed system
contingency factors
contingency
decentralization
effectiveness

efficiency
Hawthorne Studies
level of analysis
mechanistic
open system
organic
organization theory
organizational behavior
organizations

role
scientific management
stakeholder
stakeholder approach
structural dimensions
subsystems
sustainability
system
task



Discussion Questions

1. What is the definition of *organization*? Briefly explain each part of the definition as you understand it.
2. Describe some ways in which the digital world has influenced or affected an organization with which you are familiar, such as your college or university, a local retailer or restaurant, a volunteer organization, a club to which you belong, or even your family. Can you identify both positive and negative aspects of this influence?
3. Explain how Mintzberg's five basic parts of the organization (Exhibit 1.6) fit together to perform needed functions. If an organization had to give up one of these five parts, such as during a severe downsizing, which one could it survive the longest without? Discuss.
4. A handful of companies on the *Fortune* 500 list are more than 100 years old, which is rare. What organizational characteristics do you think might explain 100-year longevity?
5. Can an organization be efficient without being effective? Can an inefficient organization still be an effective one? Explain your answers.
6. What is the difference between formalization and specialization? Do you think an organization high on one dimension would also be high on the other? Discuss.
7. What does *contingency* mean? What are the implications of contingency theory for managers?
8. What are the primary differences between an organic and a mechanistic organization design? Which type of organization do you think would be easier to manage? Discuss.
9. Explain the difference between an open system and a closed system. Can you give an example of a closed system? How is the stakeholder approach related to the concept of open and closed systems?
10. What are some differences one might expect among stakeholder expectations for a nonprofit organization versus a for-profit business? Do you think nonprofit managers have to pay more attention to stakeholders than do business managers? Discuss.
11. Early management theorists believed that organizations should strive to be logical and rational, with a place for everything and everything in its place. Discuss the pros and cons of this approach for today's organizations.

Chapter 1 Workbook Measuring Dimensions of Organizations⁶⁵

Analyze two organizations along the following dimensions. Indicate where you think each organization would fall on each of the scales. Use an X to indicate the first organization and an * to show the second.

You may choose any two organizations you are familiar with, such as your place of work, the university, a student organization, your church or synagogue, or your family.

	Formalization	
Many written rules	1 2 3 4 5 6 7 8 9 10	Few rules
	Specialization	
Separate tasks and roles	1 2 3 4 5 6 7 8 9 10	Overlapping tasks
	Hierarchy	
Tall hierarchy of authority	1 2 3 4 5 6 7 8 9 10	Flat hierarchy of authority
	Technology	
Product	1 2 3 4 5 6 7 8 9 10	Service
	External Environment	
Stable	1 2 3 4 5 6 7 8 9 10	Unstable

Culture		
Clear norms and values	1 2 3 4 5 6 7 8 9 10	Ambiguous norms and values
Goals		
Well-defined goals	1 2 3 4 5 6 7 8 9 10	Goals not defined
Size		
Small	1 2 3 4 5 6 7 8 9 10	Large
Organizational Mindset		
Mechanistic system	1 2 3 4 5 6 7 8 9 10	Organic system

Questions

1. What are the main differences between the two organizations you evaluated?
2. Would you recommend that one or both of the organizations have different ratings on any of the scales? Why?

CASE FOR ANALYSIS Rondell Data Corporation⁶⁶

“Damn it, he’s done it again!” Frank Forbus threw the stack of prints and specifications down on his desk in disgust. The Model 802 wide-band modulator, released for production the previous Thursday, had just come back to Frank’s Engineering Services Department with a caustic note that began, “This one can’t be produced either . . .” It was the fourth time production had kicked the design back.

Frank Forbus, director of engineering for Rondell Data Corporation, was normally a quiet man. But the Model 802 was stretching his patience; it was beginning to look just like other new products that had hit delays and problems in the transition from design to production during the eight months Frank had worked for Rondell. These problems were nothing new at the sprawling old Rondell factory; Frank’s predecessor in the engineering job had run afoul of them, too, and had finally been fired for protesting too vehemently about the other departments. But the Model 802 should have been different. Frank had met two months before (July 3, 1998) with the firm’s president, Bill Hunt, and with factory superintendent Dave Schwab to smooth the way for the new modulator design. He thought back to the meeting . . .

“Now we all know there’s a tight deadline on the 802,” Bill Hunt said, “and Frank’s done well to ask us to talk about its introduction. I’m counting on both of you to find any snags in the system and to work together to get that first production run out by October 2nd. Can you do it?”

“We can do it in production if we get a clean design two weeks from now, as scheduled,” answered Dave Schwab, the grizzled factory superintendent. “Frank and I have already talked about that, of course. I’m setting aside time in the machine shop, and we’ll be ready. If the design goes over schedule, though, I’ll have to fill in with other runs, and it will cost us a bundle to break in for the 802. How does it look in engineering, Frank?”

“I’ve just reviewed the design for the second time,” Frank replied. “If Ron Porter can keep the salesmen out of our hair and avoid any more last-minute changes, we’ve got a shot. I’ve pulled the draftsmen off three other overdue jobs to get this one out. But, Dave, that means we can’t spring engineers loose to confer with your production people on manufacturing problems.”

“Well, Frank, most of those problems are caused by the engineers, and we need them to resolve the difficulties. We’ve all agreed that production bugs come from both of us bowing to sales pressure, and putting equipment into production before the designs are really ready. That’s just what we’re trying to avoid on the 802. But I can’t have 500 people sitting on their hands waiting for an answer from your people. We’ll have to have some engineering support.”

Bill Hunt broke in. “So long as you two can talk calmly about the problem I’m confident you can resolve it. What a relief it is, Frank, to hear the way you’re approaching this. With Kilmann (the previous director of

engineering) this conversation would have been a shouting match. Right, Dave?” Dave nodded and smiled.

“Now there’s one other thing you should both be aware of,” Hunt continued. “Doc Reeves and I talked last night about a new filtering technique, one that might improve the signal-to-noise ratio of the 802 by a factor of two. There’s a chance Doc can come up with it before the 802 reaches production, and if it’s possible, I’d like to use the new filters. That would give us a real jump on the competition.”

Four days after that meeting, Frank found that two of his key people on the 802 design had been called to production for emergency consultation on a bug found in final assembly: two halves of a new data transmission interface wouldn’t fit together because recent changes in the front end required a different chassis design for the back end.

Another week later, Doc Reeves walked into Frank’s office, proud as a new parent, with the new filter design. “This won’t affect the other modules of the 802 much,” Doc had said. “Look, it takes a few connectors, some changes in the wiring harness, and some new shielding, and that’s all.”

Frank had tried to resist the last-minute design changes, but Bill Hunt had stood firm. With a lot of overtime by the engineers and draftsmen, engineering services should still be able to finish the prints in time.

Two engineers and three draftsmen went onto 12-hour days to get the 802 ready, but the prints were still five days late reaching Dave Schwab. Two days later, the prints came back to Frank, heavily annotated in red. Schwab had worked all day Saturday to review the job and had found more than a dozen discrepancies in the prints—most of them caused by the new filter design and insufficient checking time before release. Correction of those design faults had brought on a new generation of discrepancies; Schwab’s cover note on the second return of the prints indicated he’d had to release the machine capacity he’d been holding for the 802. On the third iteration, Schwab committed his photo and plating capacity to another rush job. The 802 would be at least one month late getting into production. Ron Porter, vice president for sales, was furious. His customer needed 100 units NOW, he said. Rondell was the customer’s only late supplier.

“Here we go again,” thought Frank Forbus.

Company History

Rondell Data Corporation traced its lineage through several generations of electronics technology. Its original founder, Bob Rondell, had set the firm up in 1939 as “Rondell Equipment Company” to manufacture several electrical testing devices he had invented as an engineering

faculty member at a large university. The firm branched into radio broadcasting equipment in 1947 and into data transmission equipment in the late 1960s. A well-established corps of direct salespeople, mostly engineers, called on industrial, scientific, and government accounts, but concentrated heavily on original equipment manufacturers. In this market, Rondell had a long-standing reputation as a source of high-quality, innovative designs. The firm’s salespeople fed a continual stream of challenging problems into the Engineering Department, where the creative genius of Ed “Doc” Reeves and several dozen other engineers “converted problems to solutions” (as the sales brochure bragged). Product design formed the spearhead of Rondell’s growth.

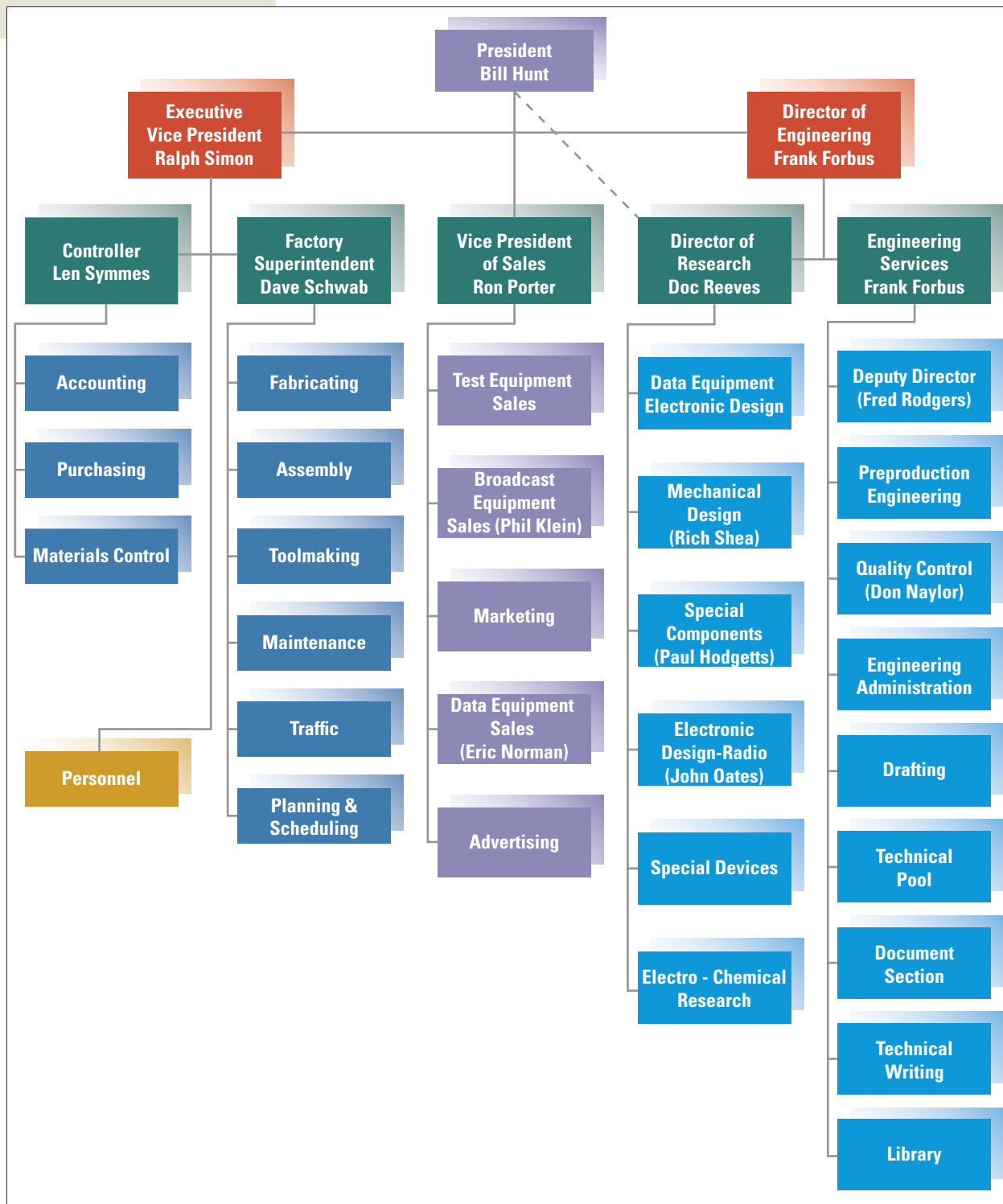
By 1998, Rondell offered a wide range of products in its two major lines. Broadcast and telecommunications equipment sales now accounted for more than half of company sales. In the field of data transmission, an increasing number of orders called for unique specifications, ranging from specialized display panels to entirely untried designs.

The company had grown from a few dozen employees in the early years to over 800 in 1998. (Exhibit 1.10 shows the 1998 organization chart of key employees.) Bill Hunt, who had been with the company since 1972, had presided over much of that growth, and he took great pride in preserving the “family spirit” of the old organization. Informal relationships between Rondell’s veteran employees formed the backbone of the firm’s day-to-day operations; all the managers relied on personal contact, and Hunt often insisted that the absence of bureaucratic red tape was a key factor in recruiting outstanding engineering talent. The personal management approach extended throughout the factory. All exempt employees were paid on a straight salary plus a share of the profits. Rondell boasted an extremely loyal group of senior employees and very low turnover in nearly all areas of the company.

The highest turnover job in the firm was Frank Forbus’s. Frank had joined Rondell in January 1998, replacing Jim Kilmann, who had been director of engineering for only 10 months. Kilmann, in turn, had replaced Tom MacLeod, a talented engineer who had made a promising start but had taken to drink after a year in the job. MacLeod’s predecessor had been a genial old-timer who retired at 70 after 30 years in charge of engineering. (Doc Reeves had refused the directorship in each of the recent changes, saying, “Hell, that’s no promotion for a bench man like me. I’m no administrator.”)

For several years, the firm had experienced a steadily increasing number of disputes between research, engineering, sales, and production people—disputes generally centered on the problem of new product introduction. Quarrels between departments became more numerous under MacLeod, Kilmann, and Forbus. Some managers associated those disputes with the company’s recent decline

EXHIBIT 1.10
 Rondell Data Corporation
 1998 Organization Chart



in profitability—a decline that, in spite of higher sales and gross revenues, was beginning to bother people in 1998. President Bill Hunt commented:

Better cooperation, I'm sure, could increase our output by 5–10 percent. I'd hoped Kilmann could solve the problems, but pretty obviously he was too young, too arrogant. People like him—conflict type of personality—bother me. I don't like strife, and with him it seemed I spent all my time smoothing out arguments. Kilmann tried to tell everyone else how to run their departments, without having his own house in order. That approach just wouldn't work here at Rondell. Frank Forbus, now, seems much more in tune with our style of organization. I'm really hopeful now.

Still, we have just as many problems now as we did last year. Maybe even more. I hope Frank can get a handle on engineering services soon . . .

The Engineering Department: Research

According to the organization chart (see Exhibit 1), Frank Forbus was in charge of both research (really the product development function) and engineering services (which provided engineering support). To Forbus, however, the relationship with research was not so clear-cut:

Doc Reeves is one of the world's unique people, and none of us would have it any other way. He's a creative genius. Sure, the chart says he works for me, but we all know Doc does his own thing. He's not the least bit interested in management routines, and I can't count on him to take any responsibility in scheduling projects, or checking budgets, or what-have-you. But as long as Doc is director of research, you can bet this company will keep on leading the field. He has more ideas per hour than most people have per year, and he keeps the whole engineering staff fired up. Everybody loves Doc—and you can count me in on that, too. In a way, he works for me, sure. But that's not what's important.

Doc Reeves—unhurried, contemplative, casual, and candid—tipped his stool back against the wall of his research cubicle and talked about what was important:

Development engineering. That's where the company's future rests. Either we have it there, or we don't have it.

There's no kidding ourselves that we're anything but a bunch of Rube Goldbergs here. But that's where the biggest kicks come from—from solving development problems, and dreaming up new ways of doing things.

That's why I so look forward to the special contracts we get involved in. We accept them not for the revenue they represent, but because they subsidize the basic development work which goes into all our basic products.

This is a fantastic place to work. I have a great crew and they can really deliver when the chips are down. Why, Bill Hunt and I (he gestured toward the neighboring cubicle, where the president's name hung over the door) are likely to find as many people here at work at 10:00 P.M. as at 3:00 in the afternoon. The important thing here is the relationships between people; they're based on mutual respect, not on policies and procedures. Administrative red tape is a pain. It takes away from development time.

Problems? Sure, there are problems now and then. There are power interests in production, where they sometimes resist change. But I'm not a fighting man, you know. I suppose if I were, I might go in there and push my weight around a little. But I'm an engineer and can do more for Rondell sitting right here or working with my own people. That's what brings results.

Other members of the Research Department echoed Doc's views and added some additional sources of satisfaction with their work. They were proud of the personal contacts they built up with customers' technical staffs—contacts that increasingly involved travel to the customers' sites to serve as expert advisers in the preparation of overall system design specifications. The engineers were also delighted with the department's encouragement of their personal development, continuing education, and independence on the job.

But there were problems, too. Rick Shea, of the mechanical design section, noted:

In the old days I really enjoyed the work—and the people I worked with. But now there's a lot of irritation. I don't like someone breathing down my neck. You can be hurried into jeopardizing the design.

John Oates, head of the electronic design section, was another designer with definite views:

Production engineering is almost nonexistent in this company. Very little is done by the preproduction section in engineering services. Frank Forbus has been trying to get preproduction into the picture, but he won't succeed because you can't start from such an ambiguous position. There have been three directors of engineering in three years. Frank can't hold his own against the others in the company, Kilmann was too aggressive. Perhaps no amount of tact would have succeeded.

Paul Hodgetts was head of special components in the research and development department. Like the rest of the department, he valued bench work. But he complained of engineering services:

The services don't do things we want them to do. Instead, they tell us what they're going to do. I should probably go to Frank, but I don't get any decisions there. I know I should go through Frank, but this holds things up, so I often go direct.

The Engineering Department: Engineering Services

The Engineering Services Department provided ancillary services to R & D and served as liaison between engineering and the other Rondell departments. Among its main functions were drafting; management of the central technicians' pool; scheduling and expediting engineering products; documentation and publication of parts lists and engineering orders; preproduction engineering (consisting of the final integration of individual design components into mechanically compatible packages); and quality control (which included inspection of incoming parts and materials, and final inspection of subassemblies and finished equipment). Top management's description of the department included the line, "ESD is responsible for maintaining cooperation with other departments, providing services to the development engineers, and freeing more valuable people in R & D from essential activities that are diversions from and beneath their main competence."

Many of Frank Forbus's 75 employees were located in other departments. Quality control people were scattered through the manufacturing and receiving areas, and technicians worked primarily in the research area or the prototype fabrication room. The remaining ESD personnel were assigned to leftover nooks and crannies near production or engineering sections.

Frank Forbus described his position:

My biggest problem is getting acceptance from the people I work with. I've moved slowly rather than risk antagonism. I saw what happened to Kilmann, and I want to avoid that. But although his precipitate action had won over a few of the younger R & D people, he certainly didn't have the department's backing. Of course, it was the resentment of other departments that eventually caused his discharge. People have been slow accepting me here. There's nothing really overt, but I get a negative reaction to my ideas.

My role in the company has never been well defined really. It's complicated by Doc's unique

position, of course, and also by the fact that ESD sort of grew by itself over the years, as the design engineers concentrated more and more on the creative parts of product development. I wish I could be more involved in the technical side. That's been my training, and it's a lot of fun. But in our setup, the technical side is the least necessary for me to be involved in.

Schwab (production head) is hard to get along with. Before I came and after Kilmann left, there were six months intervening when no one was really doing any scheduling. No work loads were figured, and unrealistic promises were made about releases. This puts us in an awkward position. We've been scheduling way beyond our capacity to manufacture or engineer.

Certain people within R & D—for instance, John Oates, head of the electronic design section—understand scheduling well and meet project deadlines, but this is not generally true of the rest of the R & D department, especially the mechanical engineers who won't commit themselves. Most of the complaints come from sales and production department heads because items—like the 802—are going to production before they are fully developed, under pressure from sales to get out the unit, and this snags the whole process. Somehow, engineering services should be able to intervene and resolve these complaints, but I haven't made much headway so far. I should be able to go to Hunt for help, but he's too busy most of the time, and his major interest is the design side of engineering, where he got his own start. Sometimes he talks as though he's the engineering director as well as president. I have to put my foot down; there are problems here that the front office just doesn't understand.

Salespeople were often observed taking their problems directly to designers, while production frequently threw designs back at R & D, claiming they could not be produced and demanding the prompt attention of particular design engineers. The latter were frequently observed in conference with production supervisors on the assembly floor. Frank went on:

The designers seem to feel they're losing something when one of us tries to help. They feel it's a reflection on them to have someone take over what they've been doing. They seem to want to carry a project right through to the final stages, particularly the mechanical people. Consequently, engineering services people are used below their capacity to contribute and our department is denied functions it should be performing. There's not as much use made of engineering services as there should be.

Frank Forbus's technician supervisor added his comments:

Production picks out the engineer who'll be the "bum of the month." They pick on every little detail instead of using their heads and making the minor changes that have to be made. The 15-to-20-year people shouldn't have to prove their ability any more, but they spend four hours defending themselves and four hours getting the job done. I have no one to go to when I need help. Frank Forbus is afraid. I'm trying to help him but he can't help me at this time. I'm responsible for fifty people and I've got to support them.

Fred Rodgers, whom Frank had brought with him to the company as an assistant, gave another view of the situation:

I try to get our people in preproduction to take responsibility, but they're not used to it and people in other departments don't usually see them as best qualified to solve the problem. There's a real barrier for a newcomer here. Gaining people's confidence is hard. More and more, I'm wondering whether there really is a job for me here.

(Rodgers left Rondell a month later.) Another of Forbus's subordinates gave his view:

If Doc gets a new product idea, you can't argue. But he's too optimistic. He judges that others can do what he does—but there's only one Doc Reeves. We've had 900 production change orders this year—they changed 2,500 drawings. If I were in Frank's shoes I'd put my foot down on all this new development. I'd look at the reworking we're doing and get production set up the way I wanted it. Kilmann was fired when he was doing a good job. He was getting some system in the company's operations. Of course, it hurt some people. There is no denying that Doc is the most important person in the company. What gets overlooked is that Hunt is a close second, not just politically but in terms of what he contributes technically and in customer relations.

This subordinate explained that he sometimes went out into the production department but that Schwab, the production head, resented this. Personnel in production said that Kilmann had failed to show respect for old-timers and was always meddling in other departments' business. This was why he had been fired, they contended.

Don Taylor was in charge of quality control. He commented:

I am now much more concerned with administration and less with work. It is one of the evils you

get into. There is tremendous detail in this job. I listen to everyone's opinion. Everybody is important. There shouldn't be distinctions—distinctions between people. I'm not sure whether Frank has to be a fireball like Kilmann. I think the real question is whether Frank is getting the job done. I know my job is essential. I want to supply service to the more talented people and give them information so they can do their jobs better.

The Sales Department

Ron Porter was angry. His job was supposed to be selling, he said, but instead it had turned into settling disputes inside the plant and making excuses to waiting customers. He jabbed a finger toward his desk:

You see that telephone? I'm actually afraid nowadays to hear it ring. Three times out of five, it will be a customer who's hurting because we've failed to deliver on schedule. The other two calls will be from production or ESD, telling me some schedule has slipped again.

The Model 802 is typical. Absolutely typical. We padded the delivery date by six weeks, to allow for contingencies. Within two months, the slack had evaporated. Now it looks like we'll be lucky to ship it before Christmas. (It was now November 28.) We're ruining our reputation in the market. Why, just last week one of our best customers—people we've worked with for 15 years—tried to hang a penalty clause on their latest order.

We shouldn't have to be after the engineers all the time. They should be able to see what problems they create without our telling them.

Phil Klein, head of broadcast sales under Porter, noted that many sales decisions were made by top management. Sales was understaffed, he thought, and had never really been able to get on top of the job.

We have grown further and further away from engineering. The director of engineering does not pass on the information that we give him. We need better relationships there. It is very difficult for us to talk to customers about development problems without technical help. We need each other. The whole of engineering is now too isolated from the outside world. The morale of ESD is very low. They're in a bad spot—they're not well organized.

People don't take much to outsiders here. Much of this is because the expectation is built up by top management that jobs will be filled from the bottom. So it's really tough when an outsider like Frank comes in.

Eric Norman, order and pricing coordinator for data equipment, talked about his own relationship with the Production Department:

Actually, I get along with them fairly well. Oh, things could be better of course, if they were more cooperative generally. They always seem to say, "It's my bat and ball, and we're playing by my rules." People are afraid to make production mad; there's a lot of power in there. But you've got to understand that production has its own set of problems. And nobody in Rondell is working any harder than Dave Schwab to try to straighten things out.

The Production Department

Dave Schwab had joined Rondell just after the Vietnam War, in which he had seen combat duty as well as intelligence duty. Both experiences had been useful in his first year of civilian employment at Rondell. The factory superintendent and several middle managers had been, apparently, indulging in highly questionable side deals with Rondell's suppliers. Dave Schwab had gathered evidence, revealed the situation to Bill Hunt, and stood by the president in the ensuing unsavory situation. Seven months after joining the company, Dave was named factory superintendent.

His first move had been to replace the fallen managers with a new team from outside. This group did not share the traditional Rondell emphasis on informality and friendly personal relationships and had worked long and hard to install systematic manufacturing methods and procedures. Before the reorganization, production had controlled purchasing, stock control, and final quality control (where final assembly of products in cabinets was accomplished). Because of the wartime events, management decided on a checks-and-balance system of organization and removed these three departments from production jurisdiction. The new production managers felt they had been unjustly penalized by this organization, particularly since they had uncovered the behavior that was detrimental to the company in the first place.

By 1998, the production department had grown to 500 employees, 60 percent of whom worked in the assembly area—an unusually pleasant environment that had been commended by *Factory* magazine for its colorful decoration, cleanliness, and low noise level. An additional 30 percent of the work force, mostly skilled machinists, staffed the finishing and fabrication department. About 60 others performed scheduling, supervisory, and maintenance duties. Production workers were nonunion, hourly-paid, and participated in both the liberal profit-sharing program and the stock purchase plan. Morale in production was traditionally high, and turnover was extremely low.

Dave Schwab commented:

To be efficient, production has to be a self-contained department. We have to control what comes into the department and what goes out. That's why purchasing, inventory control, and quality ought to run out of this office. We'd eliminate a lot of problems with better control there. Why, even Don Taylor in QC would rather work for me than for ESD; he's said so himself. We understand his problems better.

The other departments should be self-contained too. That's why I always avoid the underlings and go straight to the department heads with any questions. I always go down the line.

I have to protect my people from outside disturbances. Look what would happen if I let unfinished, half-baked designs in here—there'd be chaos. The bugs have to be found before the drawings go into the shop, and it seems I'm the one who has to find them. Look at the 802, for example. (Dave had spent most of Thanksgiving red-penciling the latest set of prints.) ESD should have found every one of those discrepancies. They just don't check drawings properly. They change most of the things I flag, but then they fail to trace through the impact of those changes on the rest of the design. I shouldn't have to do that. And those engineers are tolerance crazy. They want everything to a millionth of an inch. I'm the only one in the company who's had any experience with actually machining things to a millionth of an inch. We make sure that the things that engineers say on their drawings actually have to be that way and whether they're obtainable from the kind of raw material we buy.

That shouldn't be production's responsibility, but I have to do it. Accepting bad prints wouldn't let us ship the order any quicker. We'd only make a lot of junk that had to be reworked. And that would take even longer.

This way, I get to be known as the bad guy, but I guess that's just part of the job. (He paused with a wry smile.) Of course, what really gets them is that I don't even have a degree.

Dave had fewer bones to pick with the Sales Department because, he said, they trusted him.

When we give Ron Porter a shipping date, he knows the equipment will be shipped then.

You've got to recognize, though, that all of our new-product problems stem from sales making absurd commitments on equipment that hasn't been fully developed. That always means trouble. Unfortunately, Hunt always backs sales up, even when they're wrong. He always favors them over us.

Ralph Simon, age 65, executive vice president of the company, had direct responsibility for Rondell's production department. He said:

There shouldn't really be a dividing of departments among top management in the company. The president should be czar over all. The production people ask me to do something for them, and I really can't do it. It creates bad feelings between engineering and production, this special attention that they [R & D] get from Bill. But then Hunt likes to dabble in design. Schwab feels that production is treated like a poor relation.

The Executive Committee

At the executive committee meeting on December 6, it was duly recorded that Dave Schwab had accepted the prints and specifications for the Model 802 modulator, and had set Friday, December 29, as the shipping date for the first 10 pieces. Bill Hunt, in the chairperson's role, shook his head and changed the subject quickly when Frank tried to open the agenda to a discussion of interdepartmental coordination.

The executive committee itself was a brainchild of Rondell's controller, Len Symmes, who was well aware of the disputes that plagued the company. Symmes had convinced Bill Hunt and Ralph Simon to meet every two weeks with their department heads, and the meetings were formalized with Hunt, Simon, Ron Porter, Dave Schwab, Frank Forbus, Doc Reeves, Symmes, and the personnel director attending. Symmes explained his intent and the results:

Doing things collectively and informally just doesn't work as well as it used to. Things have been gradually getting worse for at least two years now. We had to start thinking in terms of formal organization

relationships. I did the first organization chart, and the executive committee was my idea too—but neither idea is contributing much help, I'm afraid. It takes top management to make an organization click. The rest of us can't act much differently until the top people see the need for us to change.

I had hoped the committee especially would help get the department managers into a constructive planning process. It hasn't worked out that way because Mr. Hunt really doesn't see the need for it. He uses the meetings as a place to pass on routine information.

Merry Christmas

"Frank, I didn't know whether to tell you now, or after the holiday." It was Friday, December 22, and Frank Forbus was standing awkwardly in front of Bill Hunt's desk.

"But, I figured you'd work right through Christmas Day if we didn't have this talk, and that just wouldn't have been fair to you. I can't understand why we have such poor luck in the engineering director's job lately. And I don't think it's entirely your fault. But . . ."

Frank only heard half of Hunt's words, and said nothing in response. He'd be paid through February 28. . . . He should use the time for searching . . . Hunt would help all he could . . . Jim Kilmann was supposed to be doing well at his own new job, and might need more help . . .

Frank cleaned out his desk and numbly started home. The electronic carillon near his house was playing a Christmas carol. Frank thought again of Hunt's rationale: Conflict still plagued Rondell—and Frank had not made it go away. Maybe somebody else could do it.

"And what did Santa Claus bring you, Frankie?" he asked himself.

"The sack. Only the empty sack."

Notes

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