

14

Conflict in Organizations

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LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the three types of conflict and the three loci of conflict.
2. Outline the conflict process.
3. Contrast distributive and integrative bargaining.
4. Apply the five steps of the negotiation process.
5. Show how individual differences influence negotiations.
6. Describe the social factors that influence negotiations.
7. Assess the roles and functions of third-party negotiations.

★ Chapter Warm-up

If your professor has chosen to assign this, go to the Assignments section of **mymanagementlab.com** to complete the chapter warm-up.

A DEFINITION OF CONFLICT

Conflict

A process that begins when one party perceives that another party has negatively affected, or is about to negatively affect, something that the first party cares about.

There has been no shortage of definitions of *conflict*,¹ but common to most is the idea that conflict is a perception of differences or opposition. If no one is aware of a conflict, then it is generally agreed no conflict exists. Opposition or incompatibility, as well as interaction, are also needed to begin the conflict process.

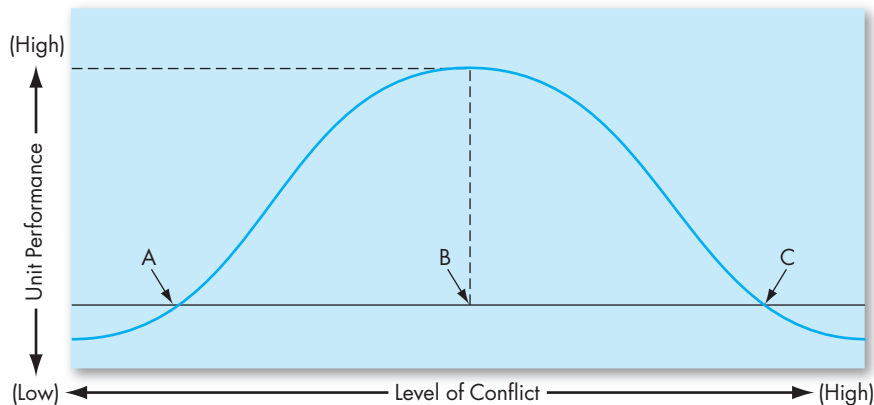
We define **conflict** broadly as a process that begins when one party perceives another party has affected or is about to negatively affect something the first party cares about. Conflict describes the point in ongoing activity when interaction becomes disagreement. People experience a wide range of conflicts in organizations over an incompatibility of

goals, differences in interpretations of facts, disagreements over behavioral expectations, and the like. Our definition covers the full range of conflict levels, from overt and violent acts to subtle forms of disagreement.

Contemporary perspectives differentiate types of conflict based on their effects. **Functional conflict** supports the goals of the group and improves its performance, and is thus a constructive form of conflict. For example, a debate among members of a work team about the most efficient way to improve production can be functional if unique points of view are discussed and compared openly. Conflict that hinders group performance is destructive or **dysfunctional conflict**. A highly personal struggle for control that distracts from the task at hand in a team is dysfunctional. Exhibit 14-1 provides an overview depicting the effect of levels of conflict. To understand different types of conflict, we will discuss next the *types* of conflict and the *loci* of conflict.

Functional conflict
Conflict that supports the goals of the group and improves its performance.

Dysfunctional conflict
Conflict that hinders group performance.



Situation	Level of Conflict	Type of Conflict	Unit's Internal Characteristics	Unit Performance Outcome
A	Low or none	Dysfunctional	Apathetic Stagnant Nonresponsive to change Lack of new ideas	Low
B	Optimal	Functional	Viable Self-critical Innovative	High
C	High	Dysfunctional	Disruptive Chaotic Uncooperative	Low

EXHIBIT 14-1
The Effect of Levels of Conflict

Types of Conflict

Relationship conflict

Conflict based on interpersonal relationships.

Task conflict

Conflict over content and goals of the work.

Process conflict

Conflict over how work gets done.

One means of understanding conflict is to identify the *type* of disagreement, or what the conflict is about. Is it a disagreement about goals? Is it about people who just rub one another the wrong way? Or is it about the best way to get things done? Although each conflict is unique, researchers have classified conflicts into three categories: relationship, task, or process. **Relationship conflict** focuses on interpersonal relationships. **Task conflict** relates to the content and goals of the work. **Process conflict** is about how the work gets done.

RELATIONSHIP CONFLICT Studies demonstrate that relationship conflicts, at least in work settings, are almost always dysfunctional. Why? It appears that the friction and interpersonal hostilities inherent in relationship conflicts increase personality clashes and decrease mutual understanding, which hinders the completion of organizational tasks. Of the three types, relationship conflicts also appear to be the most psychologically exhausting to individuals. Because they tend to revolve around personalities, you can see how relationship conflicts can become destructive. After all, we can't expect to change our coworkers' personalities, and we would generally take offense at criticisms directed at who we *are* as opposed to how we behave.

TASK CONFLICT While scholars agree that relationship conflict is dysfunctional, there is considerably less agreement about whether task and process conflicts are functional. Early research suggested that task conflict within groups correlated to higher group performance, but a review of 116 studies found that generalized task conflict was essentially unrelated to group performance. However, close examination revealed that task conflict among top management teams was positively associated with performance, whereas conflict lower in the organization was negatively associated with group performance, perhaps because people in top positions may not feel as threatened in their organizational roles by conflict. This review also found that it mattered whether other types of conflict were occurring at the same time. If task and relationship conflict occurred together, task conflict more likely was negative, whereas if task conflict occurred by itself, it more likely was positive. Other scholars have argued that the strength of conflict is important: if task conflict is very low, people aren't really engaged or addressing the important issues; if task conflict is too high, infighting will quickly degenerate into relationship conflict. Moderate levels of task conflict may thus be optimal. Supporting this argument, one study in China found that moderate levels of task conflict in the early development stage increased creativity in groups, but high levels decreased team performance.²

Finally, the personalities of the teams appear to matter. One study demonstrated that teams of individuals who are, on average, high in openness and emotional stability are better able to turn task conflict into increased group performance. The reason may be that open and emotionally stable teams can put task conflict in perspective and focus on how the variance in ideas can help solve the problem, rather than letting it degenerate into relationship conflicts.

PROCESS CONFLICT What about process conflict? Researchers found that process conflicts are about delegation and roles. Conflicts over delegation often revolve around the perception that some members are shirking, and conflicts over roles can leave some group

members feeling marginalized. Thus, process conflicts often become highly personalized and quickly devolve into relationship conflicts. It's also true, of course, that arguing about how to do something takes time away from actually doing it. We've all been part of groups in which the arguments and debates about roles and responsibilities seem to go nowhere.

Loci of Conflict

Another way to understand conflict is to consider its *locus*, or the framework within which the conflict occurs. Here, too, there are three basic types. **Dyadic conflict** is conflict between two people. **Intragroup conflict** occurs *within* a group or team. **Intergroup conflict** is conflict *between* groups or teams.

Nearly all the literature on relationship, task, and process conflicts considers intragroup conflict (within the group). That makes sense given that groups and teams often exist only to perform a particular task. However, it doesn't necessarily tell us all we need to know about the context and outcomes of conflict. For example, research has found that for intragroup task conflict to positively influence performance within the team, it is important that the team has a supportive climate in which mistakes aren't penalized and every team member "[has] the other's back."³ But is this concept applicable to the effects of intergroup conflict? Think about, say, NFL football. As we said, for a team to adapt and improve, perhaps a certain amount of intragroup conflict (but not too much) is good for team performance, especially when the team members support one another. But would we care whether members from one team supported members from another team? Probably not. In fact, if groups are competing with one another so that only one team can "win," conflict seems almost inevitable. Still, it must be managed. Intense intergroup conflict can be quite stressful to group members and might well affect the way they interact. One study found, for example, that high levels of conflict between teams caused individuals to focus on complying with norms within their teams.⁴

It may surprise you how certain individuals become most important during intergroup conflicts. One study that focused on intergroup conflict found an interplay between an individual's position within a group and the way that individual managed conflict between groups. Group members who were relatively peripheral in their own group were better at resolving conflicts between their group and another one. But this happened only when those peripheral members were still accountable to their groups, and the effect can be confounded by dyadic conflicts.⁵ Thus, being at the core of your work group does not necessarily make you the best person to manage conflict with other groups.

Altogether, understanding functional and dysfunctional conflict requires not only that we identify the type of conflict; we also need to know where it occurs. It's possible that while the concepts of relationship, task, and process conflicts are useful in understanding intragroup or even dyadic conflict, they are less useful in explaining the effects of intergroup conflict. But how do we make conflict as productive as possible? A better understanding of the conflict process, discussed next, will provide insight about potential controllable variables.

THE CONFLICT PROCESS

The **conflict process** has five stages: potential opposition or incompatibility, cognition and personalization, intentions, behavior, and outcomes (see Exhibit 14-2).

Dyadic conflict

Conflict that occurs between two people.

Intragroup conflict

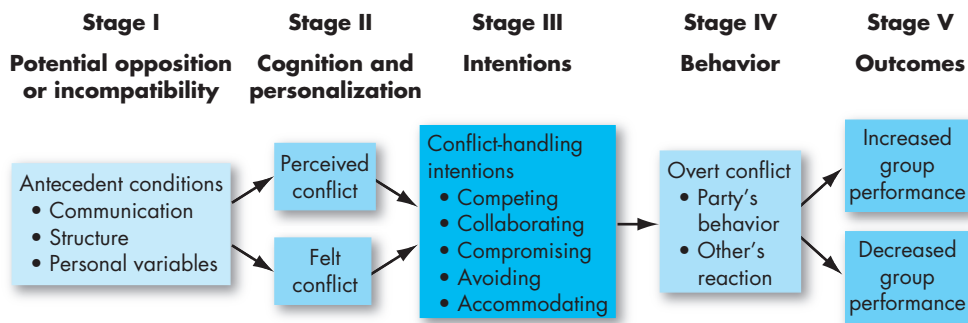
Conflict that occurs within a group or team.

Intergroup conflict

Conflict between different groups or teams.

Conflict process

A process that has five stages: potential opposition or incompatibility, cognition and personalization, intentions, behavior, and outcomes.

EXHIBIT 14-2
The Conflict
Process


Stage I: Potential Opposition or Incompatibility

The first stage of conflict is the appearance of conditions—causes or sources—that create opportunities for it to arise. These conditions *need not* lead directly to conflict, but one of them is necessary if it is to surface. We group the conditions into three general categories: communication, structure, and personal variables.

COMMUNICATION Communication can be a source of conflict.⁶ There are opposing forces that arise from semantic difficulties, misunderstandings, and “noise” in the communication channel (see Chapter 9). These factors, along with jargon and insufficient information, can be barriers to communication and potential antecedent conditions to conflict. The potential for conflict has also been found to increase with too little or *too much* communication. Communication is functional up to a point, after which it is possible to overcommunicate, increasing the potential for conflict.

STRUCTURE The term *structure* in this context includes variables such as size of group, degree of specialization in tasks assigned to group members, jurisdictional clarity, member–goal compatibility, leadership styles, reward systems, and degree of dependence between groups. The larger the group and the more specialized its activities, the greater the likelihood of conflict. Tenure and conflict are inversely related, meaning that the longer a person stays with an organization, the less likely conflict becomes. Therefore, the potential for conflict is greatest when group members are newer to the organization and when turnover is high.



PERSONAL VARIABLES Our last category of potential sources of conflict is personal variables, which include personality, emotions, and values. People high in the personality traits of disagreeableness, neuroticism, or self-monitoring (see Chapter 4) are prone to tangle with other people more often—and to react poorly when conflicts occur.⁷ Emotions can cause conflict even when they are not directed at others. For example, an employee who shows up to work irate from her hectic morning commute may carry that anger into her workday, which can result in a tension-filled meeting.⁸ Furthermore, differences in preferences and values can generate increased levels of conflict. For example, a study in Korea found that when group members didn’t agree about their desired achievement levels, there was more task conflict; when group members didn’t agree about their desired

interpersonal closeness levels, there was more relationship conflict; and when group members didn't have similar desires for power, there was more conflict over status.⁹

Stage II: Cognition and Personalization

If the conditions cited in Stage I negatively affect something one party cares about, then the potential for opposition or incompatibility becomes actualized in the second stage.

As we noted in our definition of conflict, one or more of the parties must be aware that antecedent conditions exist. However, just because a disagreement is a **perceived conflict** does not mean it is personalized. It is at the **felt conflict** level, when individuals become emotionally involved, that they experience anxiety, tension, frustration, or hostility.

Stage II is important because it's where conflict issues tend to be defined, where the parties decide what the conflict is about.¹⁰ The definition of conflict is important because it delineates the set of possible settlements. Most evidence suggests that people tend to default to cooperative strategies in interpersonal interactions unless there is a clear signal that they are faced with a competitive person. However, if our disagreement regarding, say, your salary is a zero-sum situation (the increase in pay you want means there will be that much less in the raise pool for me), I am going to be far less willing to compromise than if I can frame the conflict as a potential win-win situation (the dollars in the salary pool might be increased so both of us could get the added pay we want).

Second, emotions play a major role in shaping perceptions.¹¹ Negative emotions allow us to oversimplify issues, lose trust, and put negative interpretations on the other party's behavior.¹² In contrast, positive feelings increase our tendency to see potential relationships among elements of a problem, take a broader view of the situation, and develop innovative solutions.¹³

Stage III: Intentions

Intentions intervene between people's perceptions and emotions, and their overt behavior. They are decisions to act in a given way.¹⁴ There is slippage between intentions and behavior, so behavior does not always accurately reflect a person's intentions.

Using two dimensions—*assertiveness* (the degree to which one party attempts to satisfy his or her own concerns) and *cooperativeness* (the degree to which one party attempts to satisfy the other party's concerns)—we can identify five conflict-handling intentions: *competing* (assertive and uncooperative), *collaborating* (assertive and cooperative), *avoiding* (unassertive and uncooperative), *accommodating* (unassertive and cooperative), and *compromising* (mid-range on both assertiveness and cooperativeness).¹⁵

Intentions are not always fixed. During the course of a conflict, intentions might change if a party is able to see the other's point of view or to respond emotionally to the other's behavior. People generally have preferences among the five conflict-handling intentions. We can predict a person's intentions rather well from a combination of intellectual and personality characteristics.

COMPETING When one person seeks to satisfy his or her own interests regardless of the impact on the other parties in the conflict, that person is **competing**. We are more apt to compete when resources are scarce.

Perceived conflict

Awareness by one or more parties of the existence of conditions that create opportunities for conflict to arise.

Felt conflict

Emotional involvement in a conflict that creates anxiety, tenseness, frustration, or hostility.

Intentions

Decisions to act in a given way.

Competing

A desire to satisfy one's interests, regardless of the impact on the other party to the conflict.

Collaborating

A situation in which the parties to a conflict each desire to satisfy fully the concerns of all parties.

Avoiding

The desire to withdraw from or suppress a conflict.

Accommodating

The willingness of one party in a conflict to place the opponent's interests above his or her own.

Compromising

A situation in which each party to a conflict is willing to give up something.

COLLABORATING When parties in conflict each desire to fully satisfy the concerns of all parties, there is cooperation and a search for a mutually beneficial outcome. In **collaborating**, parties intend to solve a problem by clarifying differences rather than by accommodating various points of view. If you attempt to find a win–win solution that allows both parties' goals to be completely achieved, that's collaborating.

AVOIDING A person may recognize a conflict exists and want to withdraw from or suppress it. Examples of **avoiding** include trying to ignore a conflict and keeping away from others with whom you disagree.

ACCOMMODATING A party who seeks to appease an opponent may be willing to place the opponent's interests above his or her own, sacrificing to maintain the relationship. We refer to this intention as **accommodating**. Supporting someone else's opinion despite your reservations about it, for example, is accommodating.

COMPROMISING In **compromising**, there is no winner or loser. Rather, there is a willingness to ration the object of the conflict and accept a solution with incomplete satisfaction of both parties' concerns. The distinguishing characteristic of compromising, therefore, is that each party intends to give up something.

A review that examined the effects of the four sets of behaviors across multiple studies found that openness and collaborating were both associated with superior group performance, whereas avoiding and competing strategies were associated with significantly worse group performance.¹⁶ These effects were nearly as large as the effects of relationship conflict. This further demonstrates that it is not just the existence of conflict or even the type of conflict that creates problems, but rather the ways people respond to conflict and manage the process once conflicts arise.

Stage IV: Behavior

Stage IV is a dynamic process of interaction. For example, you make a demand on me, I respond by arguing, you threaten me, I threaten you back, and so on. Exhibit 14-3 provides a way of visualizing conflict behavior. Each behavioral stage in a conflict is built upon a foundation. At the lowest point are perceptions, misunderstandings, and differences of opinions. These may grow to subtle, indirect, and highly controlled forms

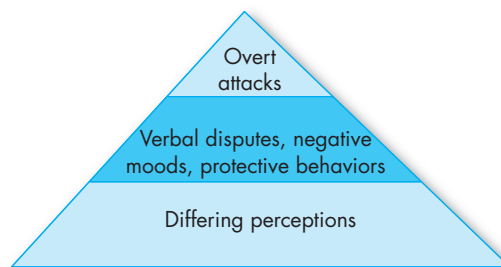


EXHIBIT 14-3

Dynamic Escalation of Conflict

Sources: P. T. Coleman, R. R. Vallacher, A. Nowak, and L. Bui-Wrzosinska, "Intractable Conflict as an Attractor: A Dynamical Systems Approach to Conflict Escalation and Intractability," *The American Behavioral Scientist* 50, no. 11 (2007): 1545–75; K. K. Petersen, "Conflict Escalation in Dyads with a History of Territorial Disputes," *International Journal of Conflict Management* 21, no. 4 (2010): 415–33.

of tension, such as a student challenging a point the instructor has made. Conflict can intensify until it becomes highly destructive. Strikes, riots, and wars clearly fall in this upper range. Conflicts that reach the upper ranges of the continuum are almost always dysfunctional. Functional conflicts are typically confined to the lower levels.

In conflict, intentions are translated into certain likely behaviors. *Competing* brings out active attempts to contend with team members, and greater individual effort to achieve ends without working together. *Collaborating* efforts create an investigation of multiple solutions with other members of the team and trying to find a solution that satisfies all parties as much as possible. *Avoidance* is seen in behavior like refusals to discuss issues and reductions in effort toward group goals. People who *accommodate* put their relationships ahead of the issues in the conflict, deferring to others' opinions and sometimes acting as a subgroup with them. Finally, when people *compromise*, they both expect to (and do) sacrifice parts of their interests, hoping that if everyone does the same, an agreement will sift out.

If a conflict is dysfunctional, what can the parties do to de-escalate it? Or, conversely, what options exist if conflict is too low to be functional and needs to be increased? This brings us to techniques of **conflict management**. We have already described several techniques in terms of conflict-handling intentions. Under ideal conditions, a person's intentions should translate into comparable behaviors.

Conflict management

The use of resolution and stimulation techniques to achieve the desired level of conflict.

Stage V: Outcomes

The action–reaction interplay between conflicting parties creates consequences. As our model demonstrates (see Exhibit 14-1), these outcomes may be functional if the conflict improves the group's performance, or dysfunctional if it hinders performance.

FUNCTIONAL OUTCOMES Conflict is constructive when it improves the quality of decisions, stimulates creativity and innovation, encourages interest and curiosity among group members, provides the medium for problems to be aired and tensions released, and fosters self-evaluation and change. Mild conflicts also may generate energizing emotions so members of groups become more active and engaged in their work.¹⁷

Conflict is an antidote for groupthink (see Chapter 10). Conflict doesn't allow the group to passively rubber-stamp decisions that may be based on weak assumptions, inadequate consideration of relevant alternatives, or other debilities. Conflict challenges the status quo and furthers the creation of new ideas, promotes reassessment of group goals and activities, and increases the probability that the group will respond to change. An open discussion focused on higher-order goals can make functional outcomes more likely. Groups that are extremely polarized do not manage their underlying disagreements effectively and tend to accept suboptimal solutions, or they avoid making decisions altogether rather than work out the conflict.¹⁸ Research studies in diverse settings confirm the functionality of active discussion. Team members with greater differences in work styles and experience tend to share more information with one another.¹⁹

DYSFUNCTIONAL OUTCOMES The destructive consequences of conflict on the performance of a group or an organization are generally well known: Uncontrolled opposition breeds discontent, which acts to dissolve common ties and eventually leads to the destruction of the group. A substantial body of literature documents how dysfunctional conflicts can reduce group effectiveness.²⁰ Among the undesirable consequences are poor communication, reductions in group cohesiveness, and subordination of group goals to

the primacy of infighting among members. All forms of conflict—even the functional varieties—appear to reduce group member satisfaction and trust.²¹ When active discussions turn into open conflicts between members, information sharing between members decreases significantly.²² At the extreme, conflict can bring group functioning to a halt and threaten the group's survival.

MANAGING CONFLICT One of the keys to minimizing counterproductive conflicts is recognizing when there really is a disagreement. Many apparent conflicts are due to people using different verbiage to discuss the same general course of action. For example, someone in marketing might focus on “distribution problems,” while someone from operations talks about “supply chain management” to describe essentially the same issue. Successful conflict management recognizes these different approaches and attempts to resolve them by encouraging open, frank discussions focused on interests rather than issues. Another approach is to have opposing groups pick parts of the solution that are most important to them and then focus on how each side can get its top needs satisfied. Neither side may get exactly what it wants, but each side will achieve the most important parts of its agenda.²³ Third, groups that resolve conflicts successfully discuss differences of opinion openly and are prepared to manage conflict when it arises.²⁴ An open discussion makes it much easier to develop a shared perception of the problems at hand; it also allows groups to work toward a mutually acceptable solution. Fourth, managers need to emphasize shared interests in resolving conflicts, so groups that disagree with one another don't become too entrenched in their points of view and start to take the conflicts personally. Groups with cooperative conflict styles and a strong underlying identification with the overall group goals are more effective than groups with a competitive style.²⁵



CULTURAL INFLUENCES Differences across countries in conflict resolution strategies may be based on collectivistic versus individualistic (see Chapter 3) tendencies and motives. Collectivistic cultures see people as deeply embedded in social situations, whereas individualistic cultures see them as autonomous. As a result, collectivists are more likely to seek to preserve relationships and promote the good of the group as a whole, and they prefer indirect methods for resolving differences of opinion. One study suggests that top management teams in Chinese high-technology firms prefer collaboration even more than compromising and avoiding. Collectivists may also be more interested in demonstrations of concern and working through third parties to resolve disputes, whereas individualists will be more likely to confront differences of opinion directly and openly.

Cross-cultural negotiations can create issues of trust.²⁶ One study of Indian and U.S. negotiators found that respondents reported having less trust in their cross-culture negotiation counterparts. The lower level of trust was associated with less discovery of common interests between parties, which occurred because cross-culture negotiators were less willing to disclose and solicit information. Another study found that both U.S. and Chinese negotiators tended to have an ingroup bias, which led them to favor negotiating partners from their own cultures. For Chinese negotiators, this was particularly true when accountability requirements were high.



Having considered conflict—its nature, causes, and consequences—we now turn to negotiation, which often resolves conflict.

★ WATCH IT

If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete the video exercise titled **Gordon Law Group: Conflict and Negotiation**.

NEGOTIATION

Negotiation permeates the interactions of almost everyone in groups and organizations. There's the obvious: Labor bargains with management. There's the not-so-obvious: managers negotiate with employees, peers, and bosses; salespeople negotiate with customers; purchasing agents negotiate with suppliers. Then there's the subtle: an employee agrees to cover for a colleague for a few minutes in exchange for a future favor. In today's loosely structured organizations, in which members often work with colleagues over whom they have no direct authority and with whom they may not even share a common boss, negotiation skills are critical.

We can define **negotiation** as a process that occurs when two or more parties decide how to allocate scarce resources.²⁷ Although we commonly think of the outcomes of negotiation in one-shot economic terms, like negotiating over the price of a car, every negotiation in organizations also affects the relationship between negotiators and the way negotiators feel about themselves.²⁸ Depending on how much the parties are going to interact with one another, sometimes maintaining the social relationship and behaving ethically will be just as important as achieving an immediate outcome of bargaining. Note that we use the terms *negotiation* and *bargaining* interchangeably.

Negotiation

A process in which two or more parties exchange goods or services and attempt to agree on the exchange rate for them.

Bargaining Strategies

There are two general approaches to negotiation—*distributive bargaining* and *integrative bargaining*.²⁹ As Exhibit 14-4 shows, they differ in their goals and motivation, focus, interests, information sharing, and duration of relationship. Let's define each and illustrate the differences.

Bargaining Characteristic	Distributive Bargaining	Integrative Bargaining
Goal	Get as much of the pie as possible	Expand the pie so that both parties are satisfied
Motivation	Win-lose	Win-win
Focus	Positions ("I can't go beyond this point on this issue.")	Interests ("Can you explain why this issue is so important to you?")
Interests	Opposed	Congruent
Information sharing	Low (Sharing information will only allow other party to take advantage)	High (Sharing information will allow each party to find ways to satisfy interests of each party)
Duration of relationship	Short term	Long term

EXHIBIT 14-4
Distributive Versus Integrative Bargaining

Distributive bargaining

Negotiation that seeks to divide up a fixed amount of resources; a win-lose situation.

Fixed pie

The belief that there is only a set amount of goods or services to be divvied up between the parties.

DISTRIBUTIVE BARGAINING You see a used car advertised for sale online that looks great. You go see the car. It's perfect, and you want it. The owner tells you the asking price. You don't want to pay that much. The two of you negotiate. The negotiating strategy you're engaging in is called **distributive bargaining**. Its identifying feature is that it operates under zero-sum conditions—that is, any gain I make is at your expense, and vice versa (see Chapter 13). Every dollar you can get the seller to cut from the car's price is a dollar you save, and every dollar the seller can get from you comes at your expense. The essence of distributive bargaining is negotiating over who gets what share of a fixed pie. By **fixed pie**, we mean a set amount of goods or services to be divvied up. When the pie is fixed, or the parties believe it is, they tend to bargain distributively.

The essence of distributive bargaining is depicted in Exhibit 14-5. Parties *A* and *B* represent two negotiators. Each has a *target point* that defines what he or she would like to achieve. Each also has a *resistance point*, which marks the lowest acceptable outcome—the point beyond which the party would break off negotiations rather than accept a less favorable settlement. The area between these two points makes up each party's *aspiration range*. As long as there is some overlap between *A*'s and *B*'s aspiration ranges, there exists a settlement range in which each one's aspirations can be met.

When you are engaged in distributive bargaining, one of the best things you can do is make the first offer and make it an aggressive one. Making the first offer shows power; individuals in power are much more likely to make initial offers, speak first at meetings, and thereby gain the advantage. Another reason this is a good strategy is the anchoring bias, mentioned in Chapter 5. People tend to fixate on initial information. Once that anchoring point has been set, they fail to adequately adjust it based on subsequent information. A savvy negotiator sets an anchor with the initial offer, and scores of negotiation studies show that such anchors greatly favor the person who sets them.³⁰

INTEGRATIVE BARGAINING Jake was a Chicago luxury boutique owned by Jim Wetzel and Lance Lawson. In the early days of the business, Wetzel and Lawson moved millions of dollars of merchandise from many up-and-coming designers. They developed such a good rapport that many designers would send allotments to Jake without requiring advance payment. When the economy soured in 2008, Jake had trouble selling inventory, and designers were not being paid for what they had shipped to the store. Despite the fact that many designers were willing to work with the store on a delayed payment plan, Wetzel and Lawson stopped returning their calls. Lamented one designer, Doo-Ri Chung, “You kind of feel this familiarity with people who supported you for so long. When they have cash-flow issues, you want to make sure you are there for them as well.”³¹ Chung's attitude shows the promise of **integrative bargaining**. In contrast to distributive bargaining, integrative bargaining assumes that one or more of

Integrative bargaining

Negotiation that seeks one or more settlements that can create a win-win solution.

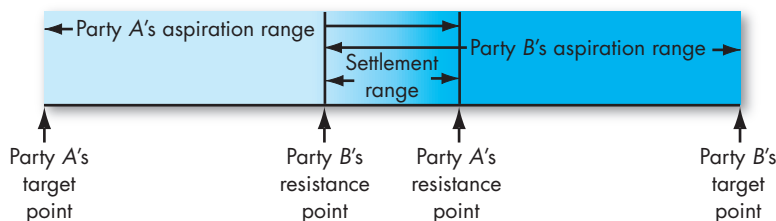


EXHIBIT 14-5
Staking Out the Bargaining Zone

the possible settlements can create a win–win solution. Of course, as the Jake example shows, both parties must be engaged for integrative bargaining to work.

CHOOSING BARGAINING METHODS In terms of intraorganizational behavior, integrative bargaining is preferable to distributive bargaining because the former builds long-term relationships. Integrative bargaining bonds negotiators and allows them to leave the bargaining table feeling they have achieved a victory. Distributive bargaining, however, leaves one party a loser. It tends to build animosity and deepen divisions when people have to work together on an ongoing basis. Research shows that over repeated bargaining episodes, a losing party who feels positively about the negotiation outcome is much more likely to bargain cooperatively in subsequent negotiations.

Why, then, don't we see more integrative bargaining in organizations? The answer lies in the conditions necessary for it to succeed. These include opposing parties who are open with information and candid about concerns, are sensitive to the other's needs and trust, and maintain flexibility. Because these conditions seldom exist in organizations, negotiations often take a win-at-any-cost dynamic.

Compromise and accommodation may be your worst enemy in negotiating a win–win agreement. Both reduce the pressure to bargain integratively. After all, if you or your opponent caves in easily, no one needs to be creative to reach a settlement. Consider a classic example in which two siblings are arguing over who gets an orange. Unknown to them, one sibling wants the orange to drink the juice, whereas the other wants the orange peel to bake a cake. If one capitulates and gives the other the orange, they will not be forced to explore their reasons for wanting the orange, and thus they will never find the win–win solution: They could *each* have the orange because they want different parts.

THE NEGOTIATION PROCESS

Exhibit 14-6 provides a simplified model of the negotiation process. It views negotiation as made up of five steps: (1) preparation and planning, (2) definition of ground rules,

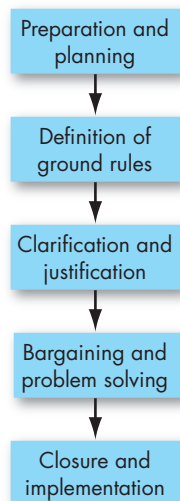


EXHIBIT 14-6
The Negotiation
Process

(3) clarification and justification, (4) bargaining and problem solving, and (5) closure and implementation.³²

PREPARATION AND PLANNING This may be the most important part of the process. Before you start negotiating, do your homework. What's the nature of the conflict? What's the history leading up to this negotiation? Who's involved and what are their perceptions of the conflict? Then consider your goals, in writing, with a range of outcomes from "most helpful" to "minimally acceptable." If you're a supply manager at Dell Computer, for instance, and your goal is to get a significant cost reduction from your keyboard supplier, make sure this goal stays paramount in discussions and doesn't get overshadowed by other issues. Next, assess what you think are the other party's goals. What intangible or hidden interests may be important to them? On what might they be willing to settle? Think carefully about what the other side might be willing to give up. People who underestimate their opponent's willingness to give on key issues before the negotiation even starts end up with lower outcomes.³³

BATNA

The best alternative to a negotiated agreement; the least the individual should accept.

Once you've gathered your information, develop a strategy. You should determine your and the other side's **best alternative to a negotiated agreement**, or **BATNA**. Your BATNA determines the lowest value acceptable to you for a negotiated agreement. Any offer you receive that is higher than your BATNA is better than an impasse. Conversely, you shouldn't expect success in your negotiation effort unless you're able to make the other side an offer it finds more attractive than its BATNA.

In nearly all cases, the party with superior alternatives will do better in a negotiation, so experts advise negotiators to solidify their BATNA prior to any interaction.³⁴ Therefore, be equipped to counter arguments with facts and figures that support your position. There is an interesting exception to this general rule—negotiators with absolutely no alternative to a negotiated agreement sometimes "go for broke" since they don't even consider what would happen if the negotiation falls through.³⁵

DEFINITION OF GROUND RULES Once you've done your planning and developed a strategy, you're ready to define with the other party the ground rules and procedures of the negotiation itself. Who will do the negotiating? Where will it take place? What time constraints, if any, will apply? To what issues will negotiation be limited? Will you follow a specific procedure if an impasse is reached? During this phase, the parties will exchange their initial proposals or demands.

CLARIFICATION AND JUSTIFICATION When you have exchanged initial positions, you and the other party will explain, amplify, clarify, bolster, and justify your original demands. This step needn't be confrontational. Rather, it's an opportunity for educating each other on the issues, why they are important, and how you arrived at your initial demands. Provide the other party with any documentation that supports your position.

BARGAINING AND PROBLEM SOLVING The essence of the negotiation process is the actual give-and-take in trying to hash out an agreement. This is where both parties need to make concessions. Relationships change as a result of negotiation, so take that into consideration. If you could "win" a negotiation but push the other side into

resentment or animosity, it might be wiser to pursue a more compromising style. If preserving the relationship will make you seem easily exploited, you may consider a more aggressive style. As an example of how the tone of a relationship in negotiations matters, people who feel good about the *process* of a job offer negotiation are more satisfied with their jobs and less likely to turn over a year later regardless of their actual *outcomes* from these negotiations.³⁶

CLOSURE AND IMPLEMENTATION The final step in the negotiation process is formalizing your agreement and developing procedures necessary for implementing and monitoring it. For major negotiations—from labor–management negotiations to bargaining over lease terms—this requires hammering out the specifics in a formal contract. For other cases, closure of the negotiation process is nothing more formal than a handshake.

INDIVIDUAL DIFFERENCES IN NEGOTIATION EFFECTIVENESS

Are some people better negotiators than others? The answer is complex. Four factors influence how effectively individuals negotiate: personality, mood/emotions, culture, and gender.

PERSONALITY TRAITS IN NEGOTIATIONS Can you predict an opponent’s negotiating tactics if you know something about his or her personality? Because personality and negotiation outcomes are related but only weakly, the answer is, at best, “sort of.”³⁷ Most research has focused on the Big Five traits of agreeableness, for obvious reasons—agreeable individuals are cooperative, compliant, kind, and conflict-averse. We might think such characteristics make agreeable individuals easy prey in negotiations, especially distributive ones. The evidence suggests, however, that overall agreeableness is weakly related to negotiation outcomes.

Self-efficacy (see Chapter 7) is one individual-difference variable that consistently seems to relate to negotiation outcomes.³⁸ This is a fairly intuitive finding—it isn’t too surprising to hear that those who believe they will be more successful in negotiation situations tend to perform more effectively. It may be that individuals who are more confident stake out stronger claims, are less likely to back down from their positions, and exhibit confidence that intimidates others. Although the exact mechanism is not yet clear, it does seem that negotiators may benefit from trying to get a boost in confidence before going to the bargaining table.

MOODS/EMOTIONS IN NEGOTIATIONS Do moods and emotions influence negotiation? They do, but the way they work depends on the emotion as well as the context. A negotiator who shows anger can induce concessions, for instance, because the other negotiator believes no further concessions from the angry party are possible. One factor that governs this outcome, however, is power—you should show anger in negotiations only if you have at least as much power as your counterpart. If you have less, showing anger actually seems to provoke “hardball” reactions from the other side.³⁹ “Faked” anger, or anger produced from surface acting, is not effective, but showing anger that is genuine (deep acting) is (see Chapter 3).⁴⁰ Having a history of showing anger, rather than sowing the seeds of revenge, actually induces more concessions because the other party perceives the



negotiator as “tough.”⁴¹ Anger has a cultural context. For instance, one study found that when East Asian participants showed anger, it induced more concessions than when the negotiator expressing anger was from the United States or Europe, perhaps because of the stereotype of East Asians as refusing to show anger.⁴²

Another relevant emotion is disappointment. Generally, a negotiator who perceives disappointment from his or her counterpart concedes more. Anxiety also may impact negotiation. For example, one study found that individuals who experienced more anxiety about a negotiation used more deceptions in dealing with others.⁴³ Another study found that anxious negotiators expect lower outcomes, respond to offers more quickly, and exit the bargaining process more quickly, leading them to obtain worse outcomes.⁴⁴ Even emotional unpredictability affects outcomes; researchers have found that negotiators who express positive and negative emotions in an unpredictable way extract more concessions because this behavior makes the other party feel less in control.⁴⁵ As one negotiator put it, “Out of the blue, you may have to react to something you have been working on in one way, and then something entirely new is introduced, and you have to veer off and refocus.”⁴⁶



CULTURE IN NEGOTIATIONS Do people from different cultures negotiate differently? The simple answer is the obvious one: Yes, they do. In general, people negotiate more effectively within cultures than between them. For example, a Colombian is apt to do better negotiating with a Colombian than with a Sri Lankan.

It appears that for successful cross-cultural negotiations, it is especially important that the negotiators be high in openness. This suggests a good strategy is to choose cross-cultural negotiators who are high on openness, and it helps to avoid factors such as time pressure that tend to inhibit learning about the other party.⁴⁷ Second, because emotions are culturally sensitive, negotiators need to be especially aware of the emotional dynamics in cross-cultural negotiation. For example, individuals from East Asian cultures may feel that using anger to get their way in a negotiation is not a legitimate tactic, so they refuse to cooperate when their opponents become upset.⁴⁸

GENDER IN NEGOTIATIONS There are many areas of organizational behavior (OB) in which men and women are not that different. Negotiation is not one of them. It seems fairly clear that men and women negotiate differently, that men and women are treated differently by negotiation partners, and that these differences affect outcomes.

A popular stereotype is that women are more cooperative and pleasant in negotiations than men. Though this is controversial, there is some merit to it. Men tend to place a higher value on status, power, and recognition, whereas women tend to place a higher value on compassion and altruism. Moreover, women tend to value relationship outcomes more than men, and men tend to value economic outcomes more than women.⁴⁹

These differences affect both negotiation behavior and negotiation outcomes. Compared to men, women tend to behave in a less assertive, less self-interested, and more accommodating manner. As one review concluded, women “are more reluctant to initiate negotiations, and when they do initiate negotiations, they ask for less, are more willing to accept [the] offer, and make more generous offers to their negotiation partners

than men do.”⁵⁰ A study of MBA students at Carnegie-Mellon University found that the male students took the step of negotiating their first offer 57 percent of the time, compared to 4 percent for the female students. The net result? A \$4,000 difference in starting salaries.⁵¹

One comprehensive literature review suggested that the tendency for men to receive better negotiation outcomes in some situations did not cover *all* situations. Indeed, the evidence suggested women and men bargain more equally in certain situations, women sometimes outperform men, and both men and women obtain more nearly equal outcomes when negotiating on behalf of someone else.⁵² In other words, everyone is better at advocating for others than they are at advocating for themselves. Factors that increased the predictability of negotiations also tended to reduce gender differences. When the range of negotiation settlements was well defined, men and women were more equal in outcomes. When more experienced negotiators were at the table, men and women were also nearly equivalent. The study authors proposed that when situations are more ambiguous, with less well-defined terms and less experienced negotiators, stereotypes may have stronger effects, leading to larger gender differences in outcomes.

NEGOTIATING IN A SOCIAL CONTEXT

We have mostly been discussing negotiations that occur among parties that meet only once, and in isolation from other individuals. However, in organizations, many negotiations are open-ended and public. When you are trying to figure out who in a work group should do a tedious task, negotiating with your boss to get a chance to travel internationally, or asking for more money for a project; there’s a social component to the negotiation. You are probably negotiating with someone you already know and will work with again, and the negotiation and its outcome are likely to be topics people will talk about. To really understand negotiations in practice, then, we must consider the social factors of reputation and relationships.

Reputation

Your reputation is the way other people think and talk about you. When it comes to negotiation, having a reputation for being trustworthy matters. In short, trust in a negotiation process opens the door to many forms of integrative negotiation strategies that benefit both parties.⁵³ The most effective way to build trust is to behave in an honest way across repeated interactions. Then, others feel more comfortable making open-ended offers with many different outcomes. This helps to achieve win–win outcomes, since both parties can work to achieve what is most important to themselves while still benefiting the other party.

Sometimes we either trust or distrust people based on word-of-mouth about a person’s characteristics. What characteristics help a person develop a trustworthy reputation? A combination of competence and integrity.⁵⁴ Negotiators higher in self-confidence and cognitive ability are seen as more competent by negotiation partners.⁵⁵ They are also considered better able to accurately describe a situation and their own resources, and are more credible when they make suggestions for creative solutions to impasses. Individuals

who have a reputation for integrity can also be more effective in negotiations.⁵⁶ They are seen as more likely to keep their promises and present information accurately, so others are more willing to accept their promises as part of a bargain. This opens many options for the negotiator that wouldn't be available to someone who is not seen as trustworthy. Finally, individuals who have higher reputations are better liked and have more friends and allies—in other words, they have more social resources, which may give them more understood power in negotiations.

Relationships

There is more to repeated negotiations than just reputation. The social, interpersonal component of relationships with repeated negotiations means that individuals go beyond valuing what is simply good for themselves and instead start to think about what is best for the other party and the relationship as a whole.⁵⁷ Repeated negotiations built on a foundation of trust also broaden the range of options, since a favor or concession today can be offered in return for some repayment further down the road.⁵⁸ Repeated negotiations also facilitate integrative problem solving. This occurs partly because people begin to see their negotiation partners in a more personal way over time and come to share emotional bonds.⁵⁹ Repeated negotiations also make integrative approaches more workable because a sense of trust and reliability has been built up.⁶⁰

THIRD-PARTY NEGOTIATIONS

To this point, we've discussed bargaining in terms of direct negotiations. Occasionally, however, individuals or group representatives reach a stalemate and are unable to resolve their differences through direct negotiations. In such cases, they may turn to a third party to help them find a solution. There are three basic third-party roles: mediator, arbitrator, and conciliator.

mediator

A neutral third party who facilitates a negotiated solution by using reasoning, persuasion, and suggestions for alternatives.

A **mediator** is a neutral third party who facilitates a negotiated solution by using reasoning and persuasion, suggesting alternatives, and the like. Mediators are widely used in labor–management negotiations and in civil court disputes. Their overall effectiveness is fairly impressive. For example, the Equal Employment Opportunity Commission (EEOC) reported a settlement rate through mediation at 72.1 percent.⁶¹ But the situation is the key to whether mediation will succeed; the conflicting parties must be motivated to bargain and resolve their conflict. In addition, conflict intensity can't be too high; mediation is most effective under moderate levels of conflict. Finally, perceptions of the mediator are important; to be effective, the mediator must be perceived as neutral and noncoercive.

Arbitrator

A third party to a negotiation who has the authority to dictate an agreement.

An **arbitrator** is a third party with the authority to dictate an agreement. Arbitration can be voluntary (requested by the parties) or compulsory (forced on the parties by law or contract). The big plus of arbitration over mediation is that it always results in a settlement. Whether there is a downside depends on how heavy-handed the arbitrator appears. If one party is left feeling overwhelmingly defeated, that party is certain to be dissatisfied and the conflict may resurface at a later time.

A **conciliator** is a trusted third party who provides an informal communication link between the negotiator and the opponent. This role was made famous by Robert Duval in the first *Godfather* film. As Don Corleone's adopted son and a lawyer by training, Duval acted as an intermediary between the Corleones and the other Mafioso families. Comparing conciliation to mediation in terms of effectiveness has proven difficult because the two overlap a great deal. In practice, conciliators typically act as more than mere communication conduits. They also engage in fact-finding, interpreting messages, and persuading disputants to develop agreements.

Conciliator
A trusted third party who provides an informal communication link between the negotiator and the opponent.

SUMMARY

While many people assume conflict lowers group and organizational performance, this assumption is frequently incorrect. Conflict can be either constructive or destructive to the functioning of a group or unit. Levels of conflict can be either too high or too low to be constructive. Either extreme hinders performance. An optimal level is one that prevents stagnation, stimulates creativity, allows tensions to be released, and initiates the seeds of change without being disruptive or preventing the coordination of activities.

IMPLICATIONS FOR MANAGERS

- Choose an authoritarian management style in emergencies, when unpopular actions need to be implemented (such as cost cutting, enforcement of unpopular rules, and discipline), and when the issue is vital to the organization's welfare. Be certain to communicate your logic when possible to make certain others remain engaged and productive.
- Seek integrative solutions when your objective is to learn, when you want to merge insights from people with different perspectives, when you need to gain commitment by incorporating concerns into a consensus, and when you need to work through feelings that have interfered with a relationship.
- You can build trust by accommodating others when you find you're wrong, when you need to demonstrate reasonableness, when other positions need to be heard, when issues are more important to others than to yourself, when you want to satisfy others and maintain cooperation, when you can build social credits for later issues, to minimize loss when you are outmatched and losing, and when others should learn from their own mistakes.
- Consider compromising when goals are important but not worth potential disruption, when opponents with equal power are committed to mutually exclusive goals, and when you need temporary settlements to complex issues.
- Distributive bargaining can resolve disputes, but it often reduces the satisfaction of one or more negotiators because it is confrontational and focused on the short term. Integrative bargaining, in contrast, tends to provide outcomes that satisfy all parties and build lasting relationships.



★ PERSONAL INVENTORY ASSESSMENTS

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15

Organization Structure and Design

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LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Identify seven elements of an organization's structure.
2. Identify the characteristics of the functional structure, the divisional structure, and the matrix structure.
3. Identify the characteristics of the virtual structure, the team structure, and the circular structure.
4. Describe the effects of downsizing on organizational structures and employees.
5. Contrast the reasons for mechanistic and organic structural models.
6. Analyze the behavioral implications of different organizational designs.

★ **Chapter Warm-up**

If your professor has chosen to assign this, go to the Assignments section of **mymanagementlab.com** to complete the chapter warm-up.

Organizational structure

The way in which job tasks are formally divided, grouped, and coordinated.

Work specialization

The degree to which tasks in an organization are subdivided into separate jobs.

WHAT IS ORGANIZATIONAL STRUCTURE?

Have you ever noticed how different work situations affect people’s behavior? We know that not all situations are equally conducive to effective organizational behavior (OB). Careful analysis reveals that the structure of an organization has a large impact on behavior. An **organizational structure** defines how job tasks are formally divided, grouped, and coordinated. Managers should address seven key elements when they design their organization’s structure: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, formalization, and boundary spanning.¹ Exhibit 15-1 presents each element as the answer to an important structural question, and the following sections describe them.

Work Specialization

Early in the twentieth century, Henry Ford became rich by building automobiles on an assembly line. Every worker was assigned a specific, specialized task such as putting on the right front door. By dividing jobs into small standardized tasks that could be performed repeatedly and quickly, the Ford Motor Company was able to produce a car every 10 seconds, using employees with relatively limited skills. **Work specialization**, or *division of labor*, describes the degree to which activities in any organization are divided into separate jobs. The essence of work specialization is to divide a job into a number of steps, each completed by a separate individual. Individuals thus specialize in doing part of an activity rather than the entirety. Overall, specialization is a means of making the most efficient use of employee skills and even successfully improving them through repetition. Less time is spent changing tasks, putting away tools and equipment from a prior step, and getting ready for another.

By the 1960s, it increasingly seemed that the good news of specialization could be carried too far. Human diseconomies began to surface in the form of boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover, which

EXHIBIT 15-1
Key Design Questions and Answers for Designing the Proper Organizational Structure

The Key Question	The Answer Is Provided by
1. To what degree are activities subdivided into separate jobs?	Work specialization
2. On what basis will jobs be grouped together?	Departmentalization
3. To whom do individuals and groups report?	Chain of command
4. How many individuals can a manager efficiently and effectively direct?	Span of control
5. Where does decision-making authority lie?	Centralization and decentralization
6. To what degree will there be rules and regulations to direct employees and managers?	Formalization
7. Do individuals from different areas need to regularly interact?	Boundary spanning

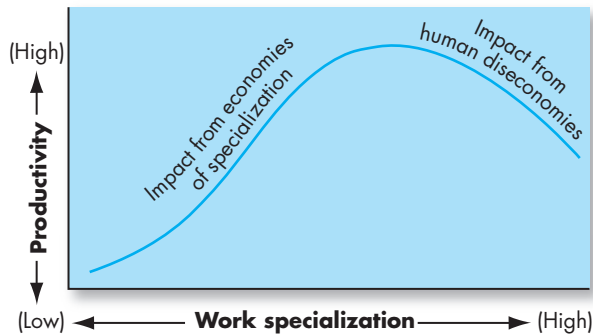


EXHIBIT 15-2
Economies and
Diseconomies
of Work
Specialization

more than offset the economic advantages (see Exhibit 15-2). Managers could increase productivity now by enlarging, rather than narrowing, the scope of job activities. Giving employees a variety of activities to do, allowing them to do a whole and complete job, and putting them into teams with interchangeable skills often achieved significantly higher output, with increased employee satisfaction.

Most managers today recognize the economies specialization provides in certain jobs and the problems when it's carried too far. Wherever job roles can be broken down into specific tasks or projects, specialization is possible. As you may have guessed, specialization is often used in manufacturing, but may confer new advantages outside manufacturing, particularly where job sharing and part-time work are prevalent.² Amazon's Mechanical Turk program, TopCoder, and others like it have facilitated a new trend in microspecialization in which extremely small pieces of programming, data processing, or evaluation tasks are delegated to a global network of individuals by a program manager who then assembles the results.³ Thus, whereas specialization of yesteryear focused on breaking manufacturing tasks into specific duties within the same plant, today's specialization judiciously breaks complex tasks into specific elements by technology, expertise, and region. Yet the core principle is the same.

Departmentalization

Once jobs have been divided through work specialization, they must be grouped so common tasks can be coordinated. The basis by which jobs are grouped is called **departmentalization**.

FUNCTIONAL DEPARTMENTALIZATION One of the most popular ways to group activities is by the *functions* performed. A manufacturing manager might organize a plant into engineering, accounting, manufacturing, human resources (HR), and supply chain departments. A hospital might have departments for research, surgery, intensive care, accounting, and so forth. The major advantage of this type of functional departmentalization is efficiencies gained from putting like specialists together.

PRODUCT OR SERVICE DEPARTMENTALIZATION We can also departmentalize jobs by the type of *product* or *service* the organization produces. Procter & Gamble places each major product—such as Tide, Pampers, Charmin, and Pringles—under an executive who has complete global responsibility for it. The major advantage here is increased accountability for performance because all activities related to a specific product or service are under the direction of a single manager.

Departmentalization
The basis by which
jobs in an organization
are grouped together.



GEOGRAPHICAL DEPARTMENTALIZATION When a firm is departmentalized on the basis of *geography* (or territory); the sales function, for instance, may have western, southern, midwestern, and eastern regions which are each a department organized around geography. This form is valuable when an organization's customers are scattered over a large geographic area and have similar needs within their locations. For this reason, Toyota changed its management structure into geographic regions "so that they may develop and deliver ever better products," said CEO Akio Toyoda.⁴

PROCESS AND CUSTOMER DEPARTMENTALIZATION *Process* departmentalization works for processing customers as well as products. If you've ever been to a state motor vehicle office to get a driver's license, you probably went through several departments before receiving your license. In one typical state, applicants go through three steps, each handled by a separate department: (1) validation by the motor vehicles division, (2) processing by the licensing department, and (3) payment collection by the treasury department. A final category of departmentalization uses the particular type of *customer* the organization seeks to reach.

IMPLICATIONS FOR OB Interestingly, organizations do not always stay with the basis of departmentalization they first adopt. Microsoft, for instance, used customer departmentalization for years, organizing around its customer bases: consumers, large corporations, software developers, and small businesses. However, in a June 2013 letter from CEO Steve Ballmer to all employees, he announced a restructuring to functional departmentalization, citing a need to foster continuing innovation. The new departments grouped jobs by traditional functions including engineering, marketing, business development, strategy and research, finance, HR, and legal.⁵

Ballmer expected the change in Microsoft's organizational structure would "re-shape how we interact with our customers, developers, and key innovation partners, delivering a more coherent message and family of product offerings."⁶ As we see throughout this text, whenever changes are deliberately made in organizations to align practices with organizational goals, particularly the goals of strong leaders, a good execution of the changes creates a much higher probability for improvement. In Microsoft's case, the results are not yet determined—Ballmer, who is a strong leader, announced his retirement two months later (he officially left Microsoft in 2014), and further changes ensued. Microsoft continued to struggle with the reorganization, announcing further changes in its leadership personnel and team structure less than a year later.⁷

Chain of command

The unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom.

Authority

The rights inherent in a managerial position to give orders and to expect the orders to be obeyed.

Chain of Command

While the chain of command was once a basic cornerstone in the design of organizations, it has far less importance today. But managers should still consider its implications, particularly in industries that deal with potential life-or-death situations when people need to quickly rely on decision makers. The **chain of command** is an unbroken line of authority that extends from the top of the organization to the lowest echelon and clarifies who reports to whom.

AUTHORITY We can't discuss the chain of command without also discussing *authority* and *unity of command*. **Authority** refers to the rights inherent in a managerial position to give orders and expect them to be obeyed. To facilitate coordination, each managerial

position is given a place in the chain of command, and each manager is given a degree of authority in order to meet his or her responsibilities.

UNITY OF COMMAND The principle of **unity of command** helps preserve the concept of an unbroken line of authority. It says a person should have one and only one superior to whom he or she is directly responsible. If the unity of command is broken, an employee might have to cope with conflicting demands or priorities from several superiors, as is often the case in organization charts' dotted-line reporting relationships depicting an employee's accountability to multiple managers.

Unity of command

The idea that a subordinate should have only one superior to whom he or she is directly responsible.

IMPLICATIONS FOR OB Times change, and so do the basic tenets of organizational design. A low-level employee today can access information in seconds that was available only to top managers a generation ago, and many employees are empowered to make decisions previously reserved for management. Add the popularity of self-managed and cross-functional teams as well as structural designs that include multiple bosses, and you can see why authority and unity of command may appear to hold less relevance. Yet many organizations still find they can be most productive by enforcing the chain of command. Indeed, one survey of more than 1,000 managers found that 59 percent agreed with the statement, "There is an imaginary line in my company's organizational chart. Strategy is created by people above this line, while strategy is executed by people below the line."⁸ However, this same survey found that lower-level employees' buy-in (agreement and active support) to the organization's overall, big picture strategy was inhibited by their reliance on the hierarchy for decision making.

Span of Control

How many employees can a manager efficiently and effectively direct? The **span of control** describes the number of levels and managers an organization has. All things being equal, the wider or larger the span, with fewer levels and more employees at each level, the more efficient the organization can be.

Assume two organizations each have about 4,100 operative-level employees. One has a uniform span of 4 and the other a span of 8. As Exhibit 15-3 illustrates, the wider

Span of control

The number of subordinates a manager can efficiently and effectively direct.

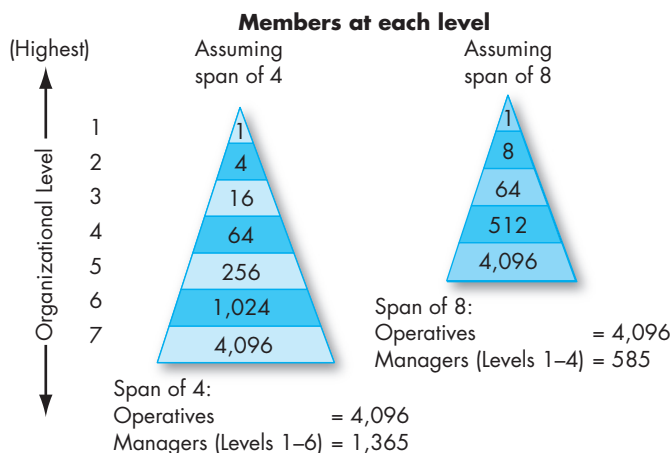


EXHIBIT 15-3
Contrasting
Spans of Control

span of 8 will have two fewer levels and approximately 800 fewer managers. If the average manager makes \$50,000 a year, the wider span will save \$40 million a year in management salaries! Obviously, wider spans are more efficient in terms of cost. However, at some point when supervisors no longer have time to provide subordinates with the necessary leadership and support, effectiveness declines and employee performance suffers.

Narrow or small spans have their advocates. Narrow spans of control with, perhaps, five or six members are sometimes preferred to minimize ambiguity, but narrow spans have three major drawbacks. First, they're expensive because they add levels of management. Second, they make vertical communication in the organization more complex. The added levels of hierarchy slow down decision making and can isolate upper management. Third, narrow spans encourage overly tight supervision and discourage employee autonomy.

The trend in recent years has been toward wider spans of control. They're consistent with firms' efforts to reduce costs, cut overhead, speed decision making, increase flexibility, get closer to customers, and empower employees. However, to ensure performance doesn't suffer because of these wider spans, organizations have been investing heavily in employee training. Managers recognize they can handle a wider span best when employees know their jobs inside and out or can turn to coworkers with questions.

Centralization and Decentralization

Centralization

The degree to which decision making is concentrated at a single point in an organization.

Decentralized decision making

The degree to which decision making is pushed down to the managers closest to the action or to workgroups.

Centralization refers to the degree to which decision making is concentrated at a single point in the organization. In *centralized* organizations, top managers make all the decisions, and lower-level managers merely carry out their directives. In organizations at the other extreme, **decentralized decision making** is pushed down to the managers closest to the action or to workgroups. The concept of centralization includes only formal authority—that is, the rights inherent to a position.

IMPLICATIONS FOR OB An organization characterized by centralization is different structurally from one that's decentralized. A decentralized organization can act more quickly to solve problems, more people provide input into decisions, and employees are less likely to feel alienated from those who make decisions that affect their work lives. The effects of centralization and decentralization can be predicted: centralized organizations are better for avoiding commission errors (bad choices), while decentralized organizations are better for avoiding omission errors (lost opportunities).⁹

Management efforts to make organizations more flexible and responsive have produced a trend toward decentralized decision making by lower-level managers, who are closer to the action and typically have more detailed knowledge about problems than top managers. For example, Sears and JCPenney have given their store managers considerably more discretion in choosing what merchandise to stock in individual stores. This allows the stores to compete more effectively against local merchants. Similarly, when Procter & Gamble empowered small groups of employees to make decisions about new-product development independent of the usual hierarchy, it was able to rapidly increase the proportion of new products ready for market.¹⁰ Concerning creativity, research

investigating a large number of Finnish organizations demonstrated that companies with decentralized research and development (R&D) offices in multiple locations were better at producing innovation than companies that centralized all R&D in a single office.¹¹

Decentralization is often necessary for companies with offshore sites because localized decision making is needed to respond to each region's profit opportunities, client base, and specific laws, while centralized oversight is needed to hold regional managers accountable. Failure to successfully balance these priorities can harm not only the organization, but also its relationships with foreign governments.¹²



Formalization

Formalization refers to the degree to which jobs within the organization are standardized. If a job is highly formalized, the employee has a minimal amount of discretion over what to do and when and how to do it, resulting in consistent and uniform output. There are explicit job descriptions, lots of organizational rules, and clearly defined procedures covering work processes. Formalization not only eliminates the possibility of employees engaging in alternative behaviors; it removes the need for them to consider alternatives. Conversely, where formalization is low, job behaviors are relatively unprogrammed and employees have a great deal of freedom to exercise discretion in their work.

Formalization

The degree to which jobs within an organization are standardized.

The degree of formalization can vary widely between and within organizations. Research from 94 high-technology Chinese firms indicated that formalization is a detriment to team flexibility in decentralized organization structures, suggesting that formalization does not work as well where duties are inherently interactive, or where there is a need to be flexible and innovative.¹³ For example, publishing representatives who call on college professors to inform them of their company's new publications have a great deal of freedom in their jobs. They have only a general sales pitch, which they tailor as needed, and rules and procedures governing their behavior may be little more than suggestions on what to emphasize about forthcoming titles and the requirement to submit a weekly sales report. At the other extreme, clerical and editorial employees in the same publishing houses may need to be at their desks by 8:00 A.M. and follow a set of precise procedures dictated by management.



Boundary Spanning

We've described ways that organizations create well-defined task structures and chains of authority. These systems facilitate control and coordination for specific tasks, but if there is too much division within an organization, attempts to coordinate across groups can be disastrous. One way to overcome compartmentalization and retain the positive elements of structure is to encourage or create boundary-spanning roles.

Within a single organization, **boundary spanning** occurs when individuals form relationships with people outside their formally assigned groups. An HR executive who frequently engages with the IT group is engaged in boundary spanning, as is a member of an R&D team who implements ideas from a production team. These activities help prevent formal structures from becoming too rigid and, not surprisingly, enhance organization and team creativity.¹⁴

Boundary spanning

When individuals form relationships outside their formally assigned groups.

Organizations can use formal mechanisms to facilitate boundary-spanning activities through their structures. One method is to assign formal liaison roles or develop

committees of individuals from different areas of the organization. Development activities can also facilitate boundary spanning. Employees with experience in multiple functions, such as accounting and marketing, are more likely to engage in boundary spanning.¹⁵ Many organizations try to set the stage for these sorts of positive relationships by creating job rotation programs so new hires get a better sense of different areas of the organization. A final method to encourage boundary spanning is to bring attention to overall organizational goals and shared identity concepts.

Boundary-spanning activities occur not only within but also between organizations. Gathering information from external knowledge sources is especially advantageous in highly innovative industries where keeping up with the competition is challenging. Positive results are especially strong in organizations that encourage extensive internal communication; in other words, external boundary spanning is most effective when it is followed up with internal boundary spanning.¹⁶

COMMON ORGANIZATIONAL FRAMEWORKS AND STRUCTURES

Organizational designs are known by many names and are constantly evolving in response to changes in the way work is done. We start with three of the more common organizational frameworks: the *simple structure*, the *bureaucracy*, and the *matrix structure*.

The Simple Structure

What do a small retail store, an electronics firm run by a hard-driving entrepreneur, and an airline's "war room" in the midst of a pilot's strike have in common? They probably all use the **simple structure**.

Simple structure

An organization structure characterized by a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization.

The simple structure has a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization. It is a flat organization; it usually has only two or three vertical levels, a loose body of employees, and one individual with decision-making authority. Most companies start as a simple structure, and many innovative technology-based firms with short life spans, like cell phone app development firms, remain compact by design.¹⁷

Consider a retail men's store owned and managed by Jack Gold. Jack employs five full-time salespeople, a cashier, and extra workers for weekends and holidays, but he runs the show. Though this is typical for a small business, in times of crisis large companies often simplify their structures (though not to this degree) as a means of focusing their resources.

The strength of the simple structure lies in its simplicity. It's fast, flexible, inexpensive to operate, and accountability is clear. One major weakness is that it becomes increasingly inadequate as an organization grows because its low formalization and high centralization tend to create information overload at the top. Decision making typically becomes slower as the single executive tries to continue doing it all. This proves the undoing of many small businesses. If the structure isn't changed and made more elaborate, the firm often loses momentum and can eventually fail. The simple structure's other weakness is that it's risky—everything depends on one person. An illness at the top can literally halt the organization's information and decision-making capabilities.

The Bureaucracy

Standardization! That's the key concept that underlies all bureaucracies. Consider the bank where you keep your checking account, the store where you buy clothes, or the government offices that collect your taxes, enforce health regulations, or provide local fire protection. They all rely on standardized work processes for coordination and control.

The **bureaucracy** is characterized by highly routine operating tasks achieved through specialization, strictly formalized rules and regulations, tasks grouped into units, centralized authority, narrow spans of control, and decision making that follows the chain of command. Bureaucracy incorporates all the strongest degrees of departmentalization described earlier.

Bureaucracy is a dirty word in many people's minds. However, it does have advantages, primarily the ability to perform standardized activities in a highly efficient manner. Putting like specialties together in units results in economies of scale, minimum duplication of people and equipment, and a common language employees all share. Bureaucracies can get by with less talented—and hence less costly—middle- and lower-level managers because rules and regulations substitute for managerial discretion. There is little need for innovative and experienced decision makers below the level of senior executives.

Listen in on a dialogue among four executives in one company: “You know, nothing happens in this place until we *produce* something,” said the production executive. “Wrong,” commented the R&D manager, “Nothing happens until we *design* something!” “What are you talking about?” asked the marketing executive, “Nothing happens until we *sell* something!” The exasperated accounting manager responded, “It doesn't matter what you produce, design, or sell. No one knows what happens until we *tally up the results*!” This conversation highlights that bureaucratic specialization can create conflicts in which the unit perspectives override the overall goals of the organization.

The other major weakness of a bureaucracy is something we've all witnessed: obsessive concern with following the rules. When cases don't precisely fit the rules, there is no room for modification. The bureaucracy is efficient only as long as employees confront familiar problems with programmed decision rules. There are two aspects of bureaucracies we should explore: functional and divisional structures.

THE FUNCTIONAL STRUCTURE The **functional structure** groups employees by their similar specialties, roles, or tasks.¹⁸ An organization structured into production, marketing, HR, and accounting departments is an example. Many large organizations utilize this structure, although this is evolving to allow for quick changes in response to business opportunities. Still, there are advantages, including that the functional structure allows specialists to become experts more easily than if they worked in diversified units. Employees can also be motivated by a clear career path to the top of the organization chart specific to their specialties.

The functional structure works well if the organization is focused on one product or service. Unfortunately, it creates rigid, formal communications because the hierarchy dictates the communication protocol. Coordination among many units is a problem, and infighting in units and between units can lead to reduced motivation.

Bureaucracy

An organization structure with highly routine operating tasks achieved through specialization, very formalized rules and regulations, tasks that are grouped into functional departments, centralized authority, narrow spans of control, and decision making that follows the chain of command.

Functional structure

An organization structure that groups employees by their similar specialties, roles, or tasks.

Divisional structure
An organization structure that groups employees into units by product, service, customer, or geographical market area.

THE DIVISIONAL STRUCTURE The **divisional structure** groups employees into units by product, service, customer, or geographical market area.¹⁹ It is highly departmentalized. Sometimes this structure is known by the type of division structure it uses: *product/service organizational structure* (like units for cat food, dog food, and bird food that report to an animal food producer); *customer organizational structure* (like units for outpatient care, inpatient care, and pharmacy that report to hospital administration); or *geographic organizational structure* (like units for Europe, Asia, and South America that report to corporate headquarters).²⁰

The divisional structure has the opposite benefits and disadvantages of the functional structure. It facilitates coordination in units to achieve on-time completion, budget targets, and development and introduction of new products to market, while addressing the specific concerns of each unit. It provides clear responsibility for all activities related to a product, but with duplication of functions and costs. Sometimes this is helpful, say when the organization has a unit in Spain and another in China, and a marketing strategy is needed for a new product. Marketing experts in both places can incorporate the appropriate cultural perspectives into their region’s marketing campaigns. However, having marketing function employees in two different countries may represent an increased cost for the organization, in that they are doing basically the same task in two different places.

The Matrix Structure

Matrix structure
An organization structure that creates dual lines of authority and combines functional and product departmentalization.

The **matrix structure** combines the functional and product structures, and we find it in advertising agencies, aerospace firms, R&D laboratories, construction companies, hospitals, government agencies, universities, management consulting firms, and entertainment companies.²¹ Companies that use matrix-like structures include ABB, Boeing, BMW, IBM, and P&G.

The most obvious structural characteristic of the matrix is that it breaks the unity-of-command concept. Employees in the matrix have two bosses: their functional department managers and their product managers. Exhibit 15-4 shows the matrix for a college of business administration. The academic departments of accounting, decision and information systems, marketing, and so forth are functional

EXHIBIT 15-4
Matrix Structure
for a College
of Business
Administration

Programs						
Academic Departments	Undergraduate	Master's	Ph.D.	Research	Executive Development	Community Service
Accounting						
Finance						
Decision and Information Systems						
Management						
Marketing						

units. Overlaid on them are specific programs (that is, products). Thus, members in a matrix structure have a dual chain of command: to their functional department and to their product groups. A professor of accounting teaching an undergraduate course may report to the director of undergraduate programs as well as to the chairperson of the accounting department.

The strength of the matrix is its ability to facilitate coordination when the organization has a number of complex and interdependent activities. The matrix reduces “bureaupathologies”—its dual lines of authority limit people’s tendency to protect their territories at the expense of the organization’s goals.²² The major disadvantages of the matrix lie in the confusion it creates, its tendency to foster power struggles, and the stress it places on individuals.²³ Without the unity-of-command concept, ambiguity about who reports to whom is significantly increased and often leads to conflict and power struggles between functional and product managers.

ALTERNATE DESIGN OPTIONS

In the ever-increasing trend toward flatter structures, many organizations have been developing new options with fewer layers of hierarchy and more emphasis on opening the boundaries of the organization.²⁴ In this section, we describe three such designs: the *virtual structure*, the *team structure*, and the *circular structure*.

The Virtual Structure

Why own when you can rent? That question captures the essence of the **virtual structure** (also sometimes called the *network*, or *modular*, structure), typically a small, core organization that outsources its major business functions.²⁵ The virtual structure is highly centralized, with little or no departmentalization.

Exhibit 15-5 shows a virtual structure in which management outsources all the primary functions of the business. The core of the organization is a small group of executives

Virtual structure
A small, core organization that outsources major business functions.



EXHIBIT 15-5
A Virtual Organization

whose job is to oversee directly any activities done in-house and to coordinate relationships with organizations that manufacture, distribute, and perform other crucial functions. The dotted lines represent the relationships typically maintained under contracts. In essence, managers in virtual structures spend most of their time coordinating and controlling external relations.

The major advantage of the virtual structure is its flexibility, which allows individuals with an innovative idea and little money to successfully compete against larger, more established organizations. The structure also saves a great deal of money by eliminating permanent offices and hierarchical roles.²⁶ On the other hand, the drawbacks have become increasingly clear as popularity has grown.²⁷ Virtual organizations are in a state of perpetual flux and reorganization, which means roles, goals, and responsibilities are unclear, setting the stage for political behavior. Cultural alignment and shared goals can be lost because of the low degree of interaction among members. Team members who are geographically dispersed and communicate infrequently find it difficult to share information and knowledge, which can limit innovation and slow response time. Ironically, some virtual organizations are less adaptable and innovative than those with well-established communication and collaboration networks.

The Team Structure

Team structure

An organization structure that replaces departments with empowered teams, and which eliminates horizontal boundaries and external barriers between customers and suppliers.



The **team structure** seeks to eliminate the chain of command and replace departments with empowered teams.²⁸ This structure removes vertical and horizontal boundaries in addition to breaking down external barriers between the company and its customers and suppliers.

By removing vertical boundaries, management flattens the hierarchy and minimizes status and rank. Cross-hierarchical teams (which include top executives, middle managers, supervisors, and operative employees), participative decision-making practices, and the use of 360-degree performance appraisals (in which peers and others evaluate performance) can be used. For example, at the Danish firm Oticon A/S, the world's largest hearing aid manufacturer, all traces of hierarchy have disappeared. Everyone works at uniform mobile workstations, and project teams, not functions or departments, coordinate work.

When fully operational, the team structure may break down geographic barriers. Today, most large U.S. companies see themselves as team-oriented global corporations; many, like Coca-Cola and McDonald's, do as much business overseas as in the United States, and some struggle to incorporate geographic regions into their structure. In other cases, the team approach is need-based. Such is the case with Chinese companies that, together, made 93 acquisitions in the oil and gas industry in five years—incorporating each acquisition as a new team unit—to meet forecasted demand their resources in China could not meet.²⁹ The team structure provides a solution because it considers geography as more of a tactical, logistical issue than a structural one. In short, the goal may be to break down cultural barriers and open opportunities.

Some organizations create teams incorporating their employees and their customers or suppliers. For example, to ensure important product parts are reliably made to exacting specifications by its suppliers, Honeywell International partners some of its engineers with managers at those suppliers.

The Circular Structure

Picture the concentric rings of an archery target. In the center are the executives; radiating outward in rings grouped by function are the managers, then the specialists, then the workers. This is the **circular structure**.³⁰ Does it seem like organizational anarchy? Actually, there is still a hierarchy, but top management is at the very heart of the organization, with its vision spreading outward.

The circular structure has intuitive appeal for creative entrepreneurs, and some small innovative firms have claimed it. However, as in many of the current hybrid approaches, employees are apt to be unclear about whom they report to and who is running the show. We are still likely to see the popularity of the circular structure spread. The concept may have intuitive appeal for spreading a vision of corporate social responsibility (CSR) initiatives, for instance.

Circular structure

An organization structure in which executives are at the center, spreading their vision outward in rings grouped by function (managers, then specialists, then workers).

THE LEANER ORGANIZATION: DOWNSIZING

The goal of some organizational structures we've described is to improve agility by creating a lean, focused, and flexible organization. *Downsizing* is a systematic effort to make an organization leaner by closing locations, reducing staff, or selling off business units that don't add value. Downsizing doesn't necessarily mean physically shrinking the size of your office, although that's been happening, too.

Some firms downsize to direct all their efforts toward their core competencies. American Express claims to have been doing this in a series of layoffs over more than a decade: 7,700 jobs in 2001; 6,500 jobs in 2002; 7,000 jobs (10 percent of its workforce) in 2008; 4,000 jobs in 2009. The 2013 cut of 5,400 jobs (8.5 percent of the remaining workforce) represented "its biggest retrenchment in a decade." An additional layoff of 4,000 jobs was slated for 2015. Each layoff was accompanied by a restructuring to reflect changing customer preferences, away from personal customer service and toward online customer service. According to CEO Ken Chennault, "Our business and industry continue to become transformed by technology. As a result of these changes, we have the need and the opportunity to evolve our organization and cost structure."³¹

Despite the advantages of being a lean organization, the impact of downsizing on organizational performance is not without controversy. Reducing the size of the workforce has an immediately positive outcome in the form of lower wage costs, and companies downsizing to improve strategic focus often see positive effects on stock prices after the announcement. An example is Russia's Gorky Automobile Factory (GAZ), which realized a profit for the first time in many years after President Bo Andersson fired 50,000 workers, half the workforce.³² On the other hand, among companies that only cut employees but don't restructure, profits and stock prices usually decline. Part of the problem is the effect of downsizing on employee attitudes. Employees who remain often feel worried about future layoffs and may be less committed to the organization. Stress reactions can lead to increased sickness absences, lower concentration on the job, and lower creativity. Downsizing can also lead to more voluntary turnover, so vital human capital is lost. The result is a company that is more anemic than lean.

In short, companies that make themselves lean can be more agile, efficient, and productive—but only if they make cuts carefully and help employees through the process



through investing in people, communicating more, inviting employee participation, and assisting dislocated employees.

WHY DO STRUCTURES DIFFER?

We've described many organization design options. Exhibit 15-6 recaps our discussions by presenting two extreme models of organizational design. One we call the **mechanistic model**. It's generally synonymous with the bureaucracy in that it has highly standardized processes for work, high formalization, and more managerial hierarchy. The other extreme is the **organic model**. It's flat, has fewer formal procedures for making decisions, has multiple decision makers, and favors flexible practices.³³

With these two models in mind, let's ask a few questions: Why are some organizations structured along more mechanistic lines whereas others follow organic characteristics? What forces influence the choice of design? In this section, we present major causes or determinants of an organization's structure.³⁴

Organizational Strategies

Because structure is a means to achieve objectives, and objectives derive from the organization's overall strategy, it's only logical that structure should follow strategy. If management significantly changes the organization's strategy or its values, the structure must also change to accommodate. For example, recent research indicates that aspects of organizational culture may influence the success of CSR initiatives.³⁵ If the culture is supported by the structure, the initiatives are more likely to have clear

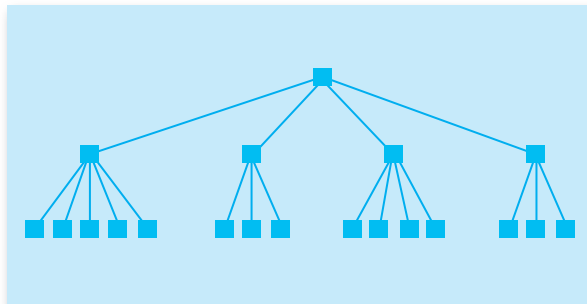
Mechanistic model

A structure characterized by extensive departmentalization, high formalization, a limited information network, and centralization.

Organic model

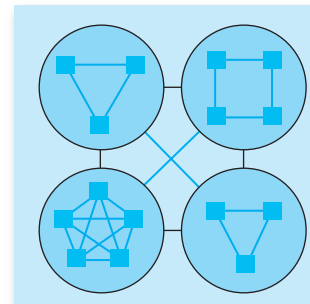
A structure that is flat, uses cross-hierarchical and cross-functional teams, has low formalization, possesses a comprehensive information network, and relies on participative decision making.

The Mechanistic Model



- High specialization
- Rigid departmentalization
- Clear chain of command
- Narrow spans of control
- Centralization
- High formalization

The Organic Model



- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization

EXHIBIT 15-6

Mechanistic vs. Organic Models

paths toward application. Most current strategy frameworks focus on three strategy dimensions—innovation, cost minimization, and imitation—and a structural design that works best with each.³⁶

INNOVATION STRATEGY To what degree does an organization introduce major new products or services? An **innovation strategy** strives to achieve meaningful and unique innovations. Obviously, not all firms pursue innovation. Apple and 3M do, but conservative retailer Marks & Spencer doesn't. Innovative firms use competitive pay and benefits to attract top candidates and motivate employees to take risks. Some degree of the mechanistic structure can actually benefit innovation. Well-developed communication channels, policies for enhancing long-term commitment, and clear channels of authority all may make it easier for rapid changes to occur smoothly.

COST-MINIMIZATION STRATEGY An organization pursuing a **cost-minimization strategy** tightly controls costs, refrains from incurring unnecessary expenses, and cuts prices in selling a basic product. This describes the strategy pursued by Walmart and the makers of generic or store-label grocery products. Cost-minimizing organizations usually pursue fewer policies meant to develop commitment among their workforce.

IMITATION STRATEGY Organizations following an **imitation strategy** try to both minimize risk and maximize opportunity for profit, moving new products or entering new markets only after innovators have proven their viability. Mass-market fashion manufacturers that copy designer styles follow this strategy, as do firms such as Hewlett-Packard and Caterpillar. They follow smaller and more innovative competitors with superior products, but only after competitors have demonstrated the market is there. Italy's Moleskine SpA, a small maker of fashionable notebooks, is another example of imitation strategy but in a different way: looking to open more retail shops around the world, it imitates the expansion strategies of larger, successful fashion companies Salvatore Ferragamo SpA and Brunello Cucinelli.³⁷

STRUCTURAL MATCHES Exhibit 15-7 describes the structural option that best matches each strategy. Innovators need the flexibility of the organic structure (although, as we noted, they may use some elements of the mechanistic structure as well), whereas cost minimizers seek the efficiency and stability of the mechanistic structure. Imitators combine the two structures. They use a mechanistic structure to maintain tight controls and low costs in their current activities but create organic subunits in which to pursue new opportunities.

Innovation strategy

A strategy that emphasizes the introduction of major new products and services.

Cost-minimization strategy

A strategy that emphasizes tight cost controls, avoidance of unnecessary innovation or marketing expenses, and price cutting.

Imitation strategy

A strategy that seeks to move into new products or new markets only after their viability has already been proven.



Strategy	Structural Option
Innovation	Organic: A loose structure; low specialization, low formalization, decentralized
Cost minimization	Mechanistic: Tight control; extensive work specialization, high formalization, high centralization
Imitation	Mechanistic and organic: Mix of loose with tight properties; tight controls over current activities and looser controls for new undertakings

EXHIBIT 15-7
The Optimal Structural Option for Each Organizational Strategy

Organization Size

An organization's size significantly affects its structure. Organizations that employ 2,000 or more people tend to have more specialization, more departmentalization, more vertical levels, and more rules and regulations than do small organizations. However, size becomes less important as an organization expands. Why? At around 2,000 employees, an organization is already fairly mechanistic; 500 more employees won't have much impact. But adding 500 employees to an organization of only 300 is likely to significantly shift it toward a more mechanistic structure.

Technology

Technology

The way in which an organization transfers its inputs into outputs.



Technology describes the way an organization transfers inputs into outputs. Every organization has at least one technology for converting financial, human, and physical resources into products or services. For example, the Chinese consumer electronics company Haier uses an assembly-line process for mass-produced products, which is complemented by more flexible and innovative structures to respond to customers and design new products.³⁸ Also, colleges may use a number of instructional technologies—the ever-popular lecture, case analysis, experiential exercise, programmed learning, online instruction, and distance learning. Regardless, organizational structures adapt to their technology.

Environment

Environment

Forces outside an organization that potentially affect the organization's structure.

An organization's **environment** includes outside institutions or forces that can affect its structure, such as suppliers, customers, competitors, and public pressure groups. Dynamic environments create significantly more uncertainty for managers than do static ones. To minimize uncertainty in key market arenas, managers may broaden their structure to sense and respond to threats. Most companies, for example Pepsi and Southwest Airlines, have added social networking departments to counter negative information posted on blogs. Or companies may form strategic alliances.

Any organization's environment has three dimensions: capacity, volatility, and complexity.³⁹ Let's discuss each separately.

CAPACITY *Capacity* refers to the degree to which the environment can support growth. Rich and growing environments generate excess resources, which can buffer the organization in times of relative scarcity.

VOLATILITY *Volatility* describes the degree of instability in the environment. A dynamic environment with a high degree of unpredictable change makes it difficult for management to make accurate predictions. Because information technology changes at such a rapid pace, more organizations' environments are becoming volatile.

COMPLEXITY Finally, *complexity* is the degree of heterogeneity and concentration among environmental elements. Simple environments—like the tobacco industry where the methods of production, competitive and regulatory pressures, and the like haven't changed in quite some time—are homogeneous and concentrated. Environments characterized by heterogeneity and dispersion—like the broadband industry—are complex and diverse, with numerous competitors.

THREE-DIMENSIONAL MODEL Exhibit 15-8 summarizes our definition of the environment along its three dimensions. The arrows indicate movement toward higher uncertainty. Thus, organizations that operate in environments characterized as scarce, dynamic, and complex face the greatest degree of uncertainty because they have high unpredictability, little room for error, and a diverse set of elements in the environment to monitor constantly.

Given this three-dimensional definition of *environment*, we can offer some general conclusions about environmental uncertainty and structural arrangements. The more scarce, dynamic, and complex the environment, the more organic a structure should be. The more abundant, stable, and simple the environment, the more the mechanistic structure will be preferred.

Institutions

Another factor that shapes organizational structure is **institutions**. These are cultural factors that act as guidelines for appropriate behavior.⁴⁰ Institutional theory describes some of the forces that lead many organizations to have similar structures and, unlike the theories we've described so far, focuses on pressures that aren't necessarily adaptive. In fact, many institutional theorists try to highlight the ways corporate behaviors sometimes *seem* to be performance oriented but are actually guided by unquestioned social norms and conformity.

The most obvious institutional factors come from regulatory pressures; certain industries under government contracts, for instance, must have clear reporting relationships and strict information controls. Sometimes simple inertia determines an organizational form—companies can be structured in a particular way just because that's the way things have always been done. Organizations in countries with high power distance might have a structural form with strict authority relationships because it's seen as more legitimate in that culture. Some have attributed problems in adaptability in Japanese organizations to the institutional pressure to maintain authority relationships.

Sometimes organizations start to have a particular structure because of fads or trends. Organizations can try to copy other successful companies just to look good to investors, and not because they need that structure to perform better. Many companies have recently tried to copy the organic form of a company like Google only to find that such structures

Institutions

Cultural factors that lead many organizations to have similar structures, especially those factors that might not lead to adaptive consequences.

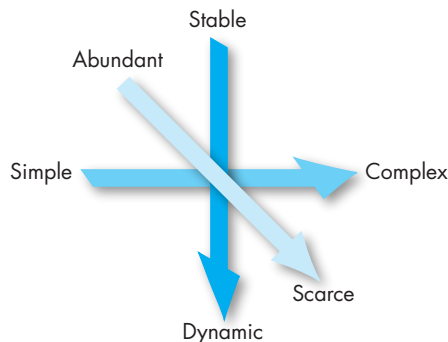


EXHIBIT 15-8
The Environment
Along Three
Dimensions

are a very poor fit with their operating environment. Institutional pressures are often difficult to see specifically because we take them for granted, but that doesn't mean they aren't powerful.

ORGANIZATIONAL DESIGNS AND EMPLOYEE BEHAVIOR

We opened this chapter by implying an organization's structure can have significant effects on its members. What might those effects be?

A review of the evidence leads to a pretty clear conclusion: You can't generalize! Not everyone prefers the freedom and flexibility of organic structures. Different factors stand out in different structures as well. In highly formalized, heavily structured, mechanistic organizations, the level of fairness in formal policies and procedures (organizational justice) is a very important predictor of satisfaction. In more personal, individually adaptive organic organizations, employees value interpersonal justice more.⁴¹ Some people are most productive and satisfied when work tasks are standardized and ambiguity is minimized—that is, in mechanistic structures. So, any discussion of the effect of organizational design on employee behavior has to address individual differences. To do so, let's consider employee preferences for work specialization, span of control, centralization, and predictability versus autonomy, as well as preferences specific to certain cultures.⁴²

Work Specialization

The evidence generally indicates that *work specialization* contributes to higher employee productivity—but at the price of job satisfaction. However, work specialization is not an unending source of higher productivity. Problems start to surface, and productivity begins to suffer, when the human diseconomies of doing repetitive and narrow tasks overtake the economies of specialization. As the workforce has become more highly educated and desirous of jobs that are intrinsically rewarding, we seem to reach the point at which productivity begins to decline as a function of specialization more quickly than in the past. While decreased productivity often prompts companies to add oversight and inspection roles, the better answer may be to reorganize work functions and accountability.⁴³

Span of Control

It is probably safe to say no evidence supports a relationship between *span of control* and employee satisfaction or performance. Although it is intuitively attractive that large spans might lead to higher employee performance because they provide more distant supervision and more opportunity for personal initiative, research fails to support this notion. Some people like to be left alone; others prefer the security of a boss who is quickly available at all times. Consistent with several of the contingency theories of leadership discussed in Chapter 12, we would expect factors such as employees' experiences and abilities, and the degree of structure in their tasks, to explain when wide or narrow spans of control are likely to contribute to performance and job satisfaction. However, some evidence indicates that a *manager's* job satisfaction increases as the number of employees supervised increases.

Centralization

We find fairly strong evidence linking *centralization* and job satisfaction. In general, less centralized organizations have a greater amount of autonomy, and autonomy appears positively related to job satisfaction. But again, while one employee may value freedom, another may find autonomous environments frustratingly ambiguous.

Predictability versus Autonomy

We can draw one obvious insight: people don't select employers randomly. They are attracted to, are selected by, and stay with organizations that suit their personal characteristics.⁴⁴ Job candidates who prefer predictability are likely to seek out and take employment in mechanistic structures, and those who want autonomy are more likely to end up in organic structures. Thus, the effect of structure on employee behavior is undoubtedly reduced when the selection process facilitates proper matching of individual characteristics with organizational characteristics. Furthermore, companies should strive to establish, promote, and maintain the unique identity of their structures since skilled employees may quit as a result of dramatic changes.⁴⁵

National Culture

Research suggests national culture influences the preference for structure.⁴⁶ Organizations that operate with people from high power-distance cultures, such as Greece, France, and most of Latin America, often find their employees are much more accepting of mechanistic structures than are employees from low power-distance countries. So consider cultural differences along with individual differences when predicting how structure will affect employee performance and satisfaction.

Finally, the changing landscape of organizational structure designs has implications for the individual progressing on a career path. Research with managers in Japan, the United Kingdom, and the United States indicated that employees who weathered downsizing and resulting hybrid organizational structures considered their future career prospects diminished. While this may or may not have been correct, their thinking shows that organizational structure does affect the employee and thus must be carefully designed.⁴⁷



★ WATCH IT

If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete the video exercise titled **ZipCar: Organizational Structure**.

SUMMARY

The theme of this chapter is that an organization's internal structure contributes to explaining and predicting behavior. That is, in addition to individual and group factors, the structural relationships in which people work have a bearing on employee attitudes and behavior. What's the basis for this argument? To the degree that an organization's structure reduces ambiguity for employees and clarifies concerns such as "What am I supposed to do?" "How am I supposed to do it?" "To whom do I report?" and "To whom do I go if I have a problem?" it shapes their attitudes and facilitates and motivates them to higher levels of performance.

IMPLICATIONS FOR MANAGERS

- Specialization can make operations more efficient, but remember that excessive specialization can create dissatisfaction and reduced motivation.
- Avoid designing rigid hierarchies that overly limit employees' empowerment and autonomy.
- Balance the advantages of remote work against the potential pitfalls before adding flexible workplace options into the organization's structure.
- Downsize your organization to realize major cost savings, and focus the company around core competencies—but only if necessary, because downsizing can have a significant negative impact on employee affect.
- Consider the scarcity, dynamism, and complexity of the environment, and balance organic and mechanistic elements when designing an organizational structure.

★ TRY IT!

If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete the **Simulation: Organizational Structure**.



★ PERSONAL INVENTORY ASSESSMENTS

Organizational Structure Assessment

To learn about how organizations are structured, complete this PIA.

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Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

- I5-1.** Which organizational designs do you think are best suited to incorporate employees who work from home? Why?
- I5-2. Pearson MyLab Management Only**—comprehensive writing assignment for this chapter.