COOKING UP A NEW STRUCTURE

For years, the Sara Lee Corporation grew by buying an amalgam of different businesses and piecing them together under its corporate umbrella. And for years, the firm’s senior managers have struggled with how best to structure the various Sara Lee holdings. One former long-term CEO, John Bryan, presided over growth that took Sara Lee far beyond...
its foundation in food products to encompass dozens of business lines—everything from cake mixes to insecticide to lingerie. The various businesses were acquisitions, but their original managers still controlled each one as if it were a separate company. Hence, each business retained its own legal department, human resource staff, administrative units, accounting departments, and so forth. Calculating the cost of all this duplication, Bryan reached the conclusion that the company could not afford such high costs at a time when price competition was heating up.

In an effort to fix things, starting in 1997, Bryan sold or eliminated about one-quarter of the firm’s 200 products. He cut redundant factories and the workforce, reduced the number of products, and standardized companywide processes. His goal was to remove Sara Lee from manufacturing while strengthening its focus and effectiveness as a marketer. In the meantime, though, he continued to acquire rival firms in order to sustain the company’s growth. However, despite Bryan’s efforts, Sara Lee still suffered from high costs and remained unfocused and inefficient. Said one industry analyst about Bryan’s strategy: “Sometimes, the more chairs you move around, the more dust you see behind the chairs.”

In 2000, Bryan retired and was replaced by C. Steven McMillan. McMillan knew that Bryan’s moves had had little impact on the firm’s performance and that he himself would need to start making some big changes. Borrowing a page from rival Kraft Foods, he began by merging the sales forces that specialized in various brands to create smaller,
customer-focused teams. In meats alone, for instance, Sara Lee had 10 different brands, including Ball Park, Hillshire Farms, Bryan, and Jimmy Dean. “So if you’re . . . a Kroger or a Safeway [supermarket],” explained McMillan, “you’ve got to deal with 10 different organizations and multiple invoices.” The new customer-focused teams reduced duplication and were more convenient for buyers—a win-win situation. National retailers responded by increasing their orders for Sara Lee products.

McMillan also centralized decision making at the firm by shutting down 50 weaker regional brands and reorganizing the firm into three broad product categories: Food and Beverage, Intimates and Underwear, and Household Products. He abolished several layers of corporate hierarchy, including many of the middle managers the firm had inherited from its acquisitions. He created category managers to oversee related lines of business, and the flattened organizational structure led to improved accountability and more centralized control over Sara Lee’s far-flung operations.

McMillan also borrowed some tactics from his predecessor, selling 15 businesses, including Coach leather goods, and laying off 10 percent of his workers. In another move that was widely questioned by industry observers, he paid $2.8 billion for breadmaker Earthgrains. The move increased Sara Lee’s market share in baked goods, but many observers felt that McMillan paid too much for a small potential return.

Our opening story continues on page 194.

WHAT’S IN IT FOR ME?
Sara Lee has been undergoing changes over the past several years, most of them aimed at improving the organization’s structure. As a result, people who work for Sara Lee have had to continually work to understand their “place” in the organization. By understanding the material in this chapter, you’ll also be prepared to understand your “place” in the organization that employs you. Similarly, as a boss or owner, you’ll be better equipped to create the optimal structure for your own organization.

This chapter examines factors that influence a firm’s organizational structure. We discuss the building blocks of organizational structure as well as the differences between decision making in different types of organizations. Along the way, we look at a variety of organizational structures and describe the most popular new forms of organizational design.

WHAT IS ORGANIZATIONAL STRUCTURE?
One key decision that business owners and managers must address is how best to structure their organization. Stated differently, they must decide on an appropriate organizational structure. We can define organizational structure as the specification of the jobs to be done within an organization and the ways in which those jobs relate to one another. Perhaps the easiest way to understand structure is in terms of an organization chart.

ORGANIZATION CHARTS
Most businesses prepare organization charts to clarify structure and to show employees where they fit into a firm’s operations. Figure 6.1 is an organization chart for Contemporary Landscape Services, a small but thriving business in Bryan, Texas. Each box in the chart represents a job. The solid lines define the chain of command,
or reporting relationships, within the company. For example, the retail shop, nursery, and landscape operations managers all report to the owner and president, Mark Ferguson. Within the landscape operation is one manager for residential accounts and another for commercial accounts. Similarly, there are other managers in the retail shop and the nursery.

The organization charts of large firms are far more complex and include individuals at many more levels than those shown in Figure 6.1. Size prevents many large firms from even having charts that include all their managers. Typically, they create one organization chart showing overall corporate structure, separate charts for each division, and even more charts for individual departments or units.

Recall our definition of organizational structure: the specification of the jobs to be done within an organization and the ways in which those jobs relate to one another. The boxes in the organization chart represent the jobs, and the lines connecting the boxes show how the jobs are related. As we will see, however, even though organizational structure can be broken down into a series of boxes and lines, virtually no two organizations will have the same structure. What works for Texas Instruments will not work for Shell Oil, Amazon.com, or the U.S. Department of Justice. Likewise, the structure of the American Red Cross will probably not work for Union Carbide or the University of Minnesota.

### Determinants of Organizational Structure

How is an organization’s structure determined? Ideally, managers carefully assess a variety of important factors as they plan for and then create an organizational structure that will allow their organization to function efficiently.

Many factors play a part in determining an organization’s optimal structure. Chief among them are the organization’s mission and strategy. A dynamic and rapidly growing business, for example, needs an organizational structure that allows it to be flexible, to respond to changes in its environment and strategy, and to grow. A stable organization with only modest growth goals and a more conservative strategy will most likely function best with a different organizational structure.

Size of the company and aspects of the organization’s environment also affect organizational structure. As we saw in Chapter 5, organizing is a key part of the management process. As such, it must be conducted with an equal awareness of both a firm’s external and internal environments. A large manufacturer operating in a strongly competitive
environment—for example, American Airlines or Hewlett-Packard—requires a different organizational structure than a local barbershop or video store. Even after an organizational structure has been created, it is rarely free from tinkering—or even outright re-creation. Most organizations change their structures on an almost continuing basis.

Since it was first incorporated in 1903, Ford Motor Company has undergone literally dozens of major structural changes, hundreds of moderate changes, and thousands of minor changes. In the last decade alone, Ford has initiated several major structural changes. In 1994, for instance, the firm announced a major restructuring plan, Ford 2000, which was intended to integrate all of Ford’s vast international operations into a single, unified structure by the year 2000.

By 1998, however, midway through implementation of the grand plan, top Ford executives announced major modifications, indicating that (1) additional changes would be made, (2) some previously planned changes would not be made, and (3) some recently realigned operations would be changed again. In early 1999, managers announced another set of changes intended to eliminate corporate bureaucracy, speed decision making, and improve communication and working relationships among people at different levels of the organization. Early in 2001, Ford announced yet more sweeping changes intended to boost the firm’s flagging bottom line and stem a decline in product quality. More significant changes followed in both 2003 and 2004, and in 2006, the firm announced several plant closings, resulting in even more changes.1

**THE BUILDING BLOCKS OF ORGANIZATIONAL STRUCTURE**

The first step in developing the structure of any business, large or small, involves three activities:

1. **Specialization.** Determining who will do what
2. **Departmentalization.** Determining how people performing certain tasks can best be grouped together
3. **Establishment of a Decision-Making Hierarchy.** Deciding who will be empowered to make which decisions and who will have authority over others

These three activities are the building blocks of all business organizations. In this section, we discuss specialization and departmentalization. Because the decision-making hierarchy actually includes several elements, we cover it in more detail in the next section.

**SPECIALIZATION**

The process of identifying the specific jobs that need to be done and designating the people who will perform them leads to **job specialization.** In a sense, all organizations have only one major job, such as making cars (Ford), selling finished goods to consumers (Sara Lee), or providing telecommunications services (Verizon). Usually, that job is more complex in nature. For example, the job of Chaparral Steel is converting scrap steel (such as wrecked automobiles) into finished steel products (such as beams and reinforcement bars).

To perform this one overall job, managers actually break it down, or specialize it, into several smaller jobs. Thus, some workers transport the scrap steel to the company’s mill in Midlothian, Texas. Others operate shredding equipment before turning raw materials over to the workers who then melt them into liquid form. Other specialists
oversee the flow of the liquid into molding equipment, where it is transformed into new products. Finally, other workers are responsible for moving finished products to a holding area before they are shipped out to customers. When the overall job of the organization is broken down like this, workers can develop real expertise in their jobs, and employees can better coordinate their work with that done by others.

**Specialization and Growth** In a very small organization, the owner may perform every job. As the firm grows, however, so does the need to specialize jobs so that others can perform them. To see how specialization can evolve in an organization, consider the case of the Walt Disney Company. When Walt Disney first opened his animation studio, he and his brother Roy did everything. For example, when they created their very first animated feature, *Steamboat Willy*, they wrote the story, drew the pictures, transferred the pictures to film, provided the voices, and went out and sold the cartoon to theater operators.

Today, however, a Disney animated feature is made possible only through the efforts of hundreds of people. The job of one animator may be to create the face of a single character throughout an entire feature. Another artist may be charged with coloring background images in certain scenes. People other than artists are responsible for the subsequent operations that turn individual computer-generated images into a moving picture or for the marketing of the finished product.

Job specialization is a natural part of organizational growth. It also has certain advantages. For example, specialized jobs are learned more easily and can be performed more efficiently than nonspecialized jobs, and it is also easier to replace people who leave an organization if they have highly specialized jobs. However, jobs at lower levels of the organization are especially susceptible to overspecialization. If such jobs become too narrowly defined, employees may become bored and careless, derive less satisfaction from their jobs, and lose sight of their roles in the organization.

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**DEPARTMENTALIZATION**

After jobs are specialized, they must be grouped into logical units, which is the process of departmentalization. Departmentalized companies benefit from this division of activities: Control and coordination are narrowed and made easier, and top managers can see more easily how various units are performing.

Departmentalization allows the firm to treat each department as a profit center—a separate company unit responsible for its own costs and profits. Thus, Sears can calculate the profits it generates from men’s clothing, appliances, home furnishings, and every other department within a given store separately. Managers can then use this information
in making decisions about advertising and promotional events, space allocation, budgeting, and so forth.

Managers do not departmentalize jobs randomly. They group them logically, according to some common thread or purpose. In general, departmentalization may occur along product, process, functional, customer, or geographic lines (or any combination of these).

**Product Departmentalization** Manufacturers and service providers often opt for product departmentalization—dividing an organization according to the specific product or service being created. This approach is used at Lucent Technologies. For example, the wireless communications department focuses on cellular telephones and services, whereas the optical networking department focuses on fibre optical and other cable and communications technologies. Because each of them represents a defined group of products or services, Lucent managers are able—in theory—to focus on specific product lines in a clear and defined way.

**Process Departmentalization** Other manufacturers favor process departmentalization, in which the organization is divided according to production processes used to create a good or service. This principle is logical for the pickle maker Vlasic, which has three separate departments to transform cucumbers into either fresh-packed pickles, pickles cured in brine, or relishes. Cucumbers destined to become fresh-packed pickles must be packed into jars immediately, covered with a solution of water and vinegar, and prepared for sale. Those slated to be brined pickles must be aged in brine solution before packing. Relish cucumbers must be minced and combined with a host of other ingredients. Each process requires different equipment and worker skills, and different departments are created for each.

**Functional Departmentalization** Many service and manufacturing companies, especially smaller ones, develop departments according to a group’s functions or activities—a form of organization known as functional departmentalization. Such firms typically have production, marketing and sales, human resources, and accounting and finance departments. Departments may be further subdivided. For example, the marketing department might be divided into separate staffs for market research and advertising.

**Customer Departmentalization** Retail stores, such as Sears and Macy’s, actually derive their generic name—department stores—from the manner in which they are structured—a men’s department, a women’s department, a luggage department, a lawn and garden department, and so on. Each department targets a specific customer category (men, women, people who want to buy luggage, people who want to buy a lawn mower). Customer departmentalization, then, is a form of organization in which departments are created to offer products and meet needs for identifiable customer groups. Thus, a Sears customer shopping for a baby’s playpen can bypass lawn and garden supplies and head straight for children’s furniture. Stores can also group products in locations designated for deliveries, special sales, and other service-oriented purposes. In general, the store is more efficient, and customers get better service because salespeople tend to specialize and gain expertise in their departments. Another illustration of customer departmentalization is reflected in most banks. A customer wanting a consumer loan goes to the “retail banking” office, whereas a small business owner goes to the “commercial banking office.”
Geographic Departmentalization Some firms opt for geographic departmentalization—meaning they are divided according to the areas of the country or the world that they serve. Levi Strauss, for instance, has one division for the United States, one for Europe, one for the Asia Pacific region, and one for Latin America. Within the United States, geographic departmentalization is common among utilities. For example, Pacific Power and Light is organized as four geographic departments—Southwestern, Columbia Basin, Mid-Oregon, and Wyoming.

Multiple Forms of Departmentalization Because different forms of departmentalization have different advantages, larger companies tend to adopt different types of departmentalization for various levels. The company illustrated in Figure 6.2 uses functional departmentalization at the top level. At the middle level, production is divided along geographic lines. At a lower level, marketing is departmentalized by product group.

Figure 6.2 Multiple Forms of Departmentalization

At plants like this one in Canton, Mississippi, Nissan has developed an assembly process so efficient that it can turn out a vehicle in up to 10 fewer hours than Ford. The key is the organization of the workstations. At this station, workers install just about everything that the driver touches inside the truck cab. Other stations take care of the whole vehicle frame, the entire electrical system, or completed doors.
SELF-CHECK QUESTIONS 1–3

You should now be able to answer Self-Check Questions 1–3.*

1 True/False Organizations create a stable structure for themselves and then seldom have to change it.

2 Multiple Choice Which of the following jobs is likely to reflect the highest degree of specialization?
   (a) chief executive officer
   (b) sales representative
   (c) assembly line worker
   (d) human resources manager

3 Multiple Choice Which of the following is not a common basis for departmentalization?
   (a) sequence
   (b) function
   (c) process
   (d) product

*Answers to Self-Check Questions 1–3 can be found on p. 564.

ESTABLISHING THE DECISION-MAKING HIERARCHY

As we noted earlier, the third major building block of organizational structure is the establishment of a decision-making hierarchy. This is usually done by formalizing reporting relationships. When the focus is on the reporting relationships among individual managers and the people who report to them, it is most commonly referred to as delegation. However, when the focus is on the overall organization, it becomes a question of decentralization versus centralization. Given the overall importance of decisions about decentralization and centralization to organizational success, we will address these first.

DISTRIBUTING AUTHORITY: CENTRALIZATION AND DECENTRALIZATION

Some managers make the conscious decision to retain as much decision-making authority as possible at the higher levels of the organizational structure; others decide the push authority as far down the hierarchy as possible. While we can think of these two extremes as anchoring a continuum, most companies fall somewhere between the middle of such a continuum and one end point or the other.

Centralized Organizations In a centralized organization, most decision-making authority is held by upper-level managers. Most lower-level decisions must be approved by upper management before they can be implemented. McDonald’s practices centralization as a way to maintain standardization. All restaurants must follow precise steps in buying products and making and packaging burgers and other menu items. Most advertising is handled at the corporate level, and any local advertising must be approved by a regional manager. Restaurants even have to follow prescribed schedules for facilities’ maintenance and upgrades like floor polishing and parking lot cleaning. Centralized authority is most commonly found in companies that face relatively stable and predictable environments and is also typical of small businesses.
Decentralized Organizations  As a company gets larger, more decisions must be made; thus, the company tends to adopt a more decentralized pattern. In a decentralized organization, much decision-making authority is delegated to levels of management at various points below the top. Decentralization is typical in firms that have complex and rapidly changing environmental conditions. The purpose of decentralization is to make a company more responsive to its environment by allowing managers more discretion to make decisions that affect their areas of responsibility as quickly as possible. For example, Urban Outfitters practices relative decentralization in that it allows individual store managers considerable discretion over how to create product displays, which products to display close to the door, and so forth.

Tall and Flat Organizations  In addition to moving decision-making authority up or down the organization, centralization and decentralization also tend to influence the number of “layers” in an organizational structure. Decentralized firms tend to have relatively fewer layers of management, resulting in a flat organizational structure like that of the hypothetical law firm shown in Figure 6.3(a). In contrast, companies with centralized authority systems typically require multiple layers of management and thus tall organizational structures. As you can see from Figure 6.3(b), the U.S. Army is a good example. Because information, whether upward or downward bound, must pass through so many organizational layers, tall structures are prone to delays in information flow.

As organizations grow in size, it is both normal and necessary that they become at least somewhat taller. For instance, a small firm with only an owner-manager and a few employees is likely to have two layers—the owner-manager, and the employees who report to that person. As the firm grows, more layers will be needed. Born Information Services, for instance, is a small consulting firm created and run by Rick Born. At first, all his employees reported to him. But when the size of his firm had grown to more than 20 people, Born knew that he needed help in supervising and coordinating projects. As a result, he added a layer of management, consisting of what he termed staff managers, to serve as project coordinators. This move freed up time for Born to seek new business clients. Like other managers, however, Born must ensure that he has only the number of layers his firm needs. Too few layers can create chaos and inefficiency, whereas too many layers can create rigidity and bureaucracy.
Span of Control

As you can see from Figure 6.3, the distribution of authority in an organization also affects the number of people who work for any individual manager. In a flat organizational structure, the number of people directly managed by one supervisor—the manager’s span of control—is usually wide. In tall organizations, span of control tends to be relatively narrower. Span of control, however, depends on many factors. Employees’ abilities and the supervisor’s managerial skills help determine whether span of control is wide or narrow, as do the similarity and simplicity of those tasks performed under the manager’s supervision and the extent to which they are interrelated.

If lower-level managers are given more decision-making authority, their supervisors will have less work to do because some of the decisions they previously made will be transferred to their subordinates. By the same token, these managers may then be able to oversee and coordinate the work of more subordinates, resulting in an increased span of control. Similarly, when several employees perform either the same simple task or a group of interrelated tasks, a wide span of control is possible and often desirable. For instance, because all the jobs are routine, one supervisor may well control an entire assembly line. Moreover, each task depends on another. If one station stops, everyone stops. Having one supervisor for all stations ensures that all stations receive equal attention and function equally well.
In contrast, when jobs are more diversified or prone to change, a narrow span of control is preferable. In Racine, Wisconsin, for example, the Case Corporation factory makes farm tractors exclusively to order in five to six weeks. Farmers can select from a wide array of options, including engines, tires, power trains, and even a CD player. A wide assortment of machines and processes is used to construct each tractor. Although workers are highly skilled operators of their assigned machines, each machine is different. In this kind of setup, the complexities of each machine and the advanced skills needed by each operator mean that one supervisor can oversee only a small number of employees.4

THE DELEGATION PROCESS

Delegation is the process through which a manager allocates work to subordinates. In general, the delegation process involves three steps: (1) the assignment of responsibility, (2) the granting of authority, and (3) the creation of accountability. Responsibility is the duty to perform an assigned task. Authority is the power to make the decisions necessary to complete the task. Accountability is the obligation employees have to their manager for the successful completion of the assigned task. For the delegation process to work smoothly, responsibility and authority must be equivalent.

For example, imagine a mid-level buyer for Macy’s department store who encounters an unexpected opportunity to make a large purchase at an extremely good price. Assume that an immediate decision is absolutely necessary, but the buyer does not have the necessary authority to make the decision. In this instance, responsibility and authority are not equivalent, and so the firm misses a good opportunity. Now, though, consider a slight variation—the buyer does have the authority and decides to make the purchase. Now Macy’s has benefited because of the attractive price it paid for new merchandise. If the purchase decision was actually a poor one, the buyer (because of accountability) will have to justify why it seemed like a good idea.

Unfortunately, many managers actually have trouble delegating tasks to others. There are several reasons for this problem:

■ The fear that subordinates don’t really know how to do the job
■ The desire to keep as much control as possible over how things are done
■ The fear that a subordinate might “show the manager up” in front of others by doing a superb job
■ A simple lack of ability as to how to effectively delegate to others

Fortunately, there are some remedies if managers want to learn to delegate more effectively. First, managers should recognize that they can’t do everything themselves. Second, if subordinates can’t do a job, they should be trained so that they can assume more responsibility in the future. Third, managers should actually recognize that if a subordinate performs well, it also reflects favorably on the manager. Finally, a manager who simply doesn’t know how to delegate might need specialized training in how to divide up and assign tasks to others.

THREE FORMS OF AUTHORITY

Whatever type of structure a company develops, it must decide who will have authority over whom. As individuals are delegated responsibility and authority in a firm, a complex web of interactions develops. These interactions may take one of three forms of
authority: line, staff, or committee and team. Like departmentalization, all three forms may be found in a given company, especially a large one.

**Line Authority** The type of authority that flows up and down the chain of command is line authority. Most companies rely heavily on line departments—those directly linked to the production and sales of specific products. For example, Clark Equipment has a division that produces forklifts and small earthmovers. In this division, line departments include purchasing, materials handling, fabrication, painting, and assembly (all of which are directly linked to production) along with sales and distribution (both of which are directly linked to sales).

Each line department is essential to an organization’s success. Line employees are the doers and producers in a company. If any line department fails to complete its task, the company cannot sell and deliver finished goods. Thus, the authority delegated to line departments is important. A bad decision by the manager in one department can hold up production for an entire plant. For example, the painting department manager at Clark Equipment changes a paint application on a batch of forklifts, which then show signs of peeling paint. The batch will have to be repainted (and perhaps partially reassembled) before the machines can be shipped.

**Staff Authority** Some companies also rely on staff authority, which is based on special expertise and usually involves counseling and advising line managers. Common staff members include specialists in areas such as law, accounting, and human resource management. A corporate attorney, for example, may be asked to advise the marketing department as it prepares a new contract with the firm’s advertising agency. Legal staff members, however, do not typically make decisions that affect how the marketing department does its job. Staff members, therefore, help line departments in making decisions but do not usually have the authority to make final decisions.

Typically, the separation between line authority and staff responsibility is clearly delineated. As Figure 6.4 shows, this separation is usually indicated in organization charts by solid lines (line authority) and dotted lines (staff responsibility). It may help to understand this separation by remembering that whereas staff members generally provide services to management, line managers are directly involved in producing the firm’s products.

**Figure 6.4**
Line and Staff Organization
Committee and Team Authority  Recently, more organizations have started to use committee and team authority—authority granted to committees or teams that play central roles in the firm’s daily operations. A committee, for example, may consist of top managers from several major areas. If the work of the committee is especially important and if the committee members will be working together for an extended time, the organization may even grant it special authority as a decision-making body that goes beyond the individual authority possessed by each of its members.

At the operating level, many firms today are also using work teams—groups of operating employees who are empowered to plan and organize their own work and to perform that work with minimal supervision. As with permanent committees, the organization will usually find it beneficial to grant special authority to work teams so that they may function more effectively.

SELF-CHECK QUESTIONS 4–6

You should now be able to answer Self-Check Questions 4–6.*

4 Multiple Choice  A tall organization usually has which of the following kinds of span of control?  
(a) wide  
(b) smooth  
(c) narrow  
(d) none of these

5 Multiple Choice  The delegation process includes all but which of the following?  
(a) assigning responsibility  
(b) granting authority  
(c) creating accountability  
(d) all of these are part of the delegation process

6 True/False  Organizations often have line authority, staff authority, and committee and team authority.

*BAnswers to Self-Check Questions 4–6 can be found on p. 564.

FUNCTIONAL STRUCTURE

Functional structure is a form of business organization in which authority is determined by the relationships between group functions and activities. It is based on the use of functional departmentalization at the highest level of the business and is used by most small to medium-sized firms. Such organizations are usually structured around basic business functions (marketing, operations, finance). Within the company, there is a marketing department, an operations department, and a finance department. The benefits of
Making the Grade

The story has become the stuff of business legend. In the mid-1960s, undistinguished Yale student Fred Smith wrote a paper describing how the adoption of automated technology necessitated a quicker, more reliable transportation system for repair parts. As legend has it, the paper received a poor grade. But Smith himself debunks the myth, saying, “It’s become a well-known story because everybody likes to flout authority. But to be honest, I don’t really remember what grade I got.”

Whatever grade the paper earned, the idea was a winner. Smith joined the Marines and served in Vietnam before investing his own money to start up the air transport business he called Federal Express. FedEx was revolutionary in competing with the monopolistic U.S. Postal Service. In the first of what would prove to be many innovations, FedEx used a hub-and-spoke system for increased speed and efficiency. The company developed a reputation for high-quality, reliable, and fast service, albeit at a high price. The company pioneered the use of bar codes and handheld PDAs for drivers, and online, real-time package tracking for customers.

Then, in 2000, rival UPS decided to enter the air freight segment. This move forced FedEx to respond in some way. “The economics of airplanes are such that we couldn’t just keep taking prices down,” Smith says. “We finally realized that if we wanted to grow, we had to get into surface transportation.” His firm acquired several key players in the ground transportation industry and renamed them to better capitalize on the FedEx brand name. Observers approve. “People say ‘FedEx this’ when they mean ‘Get it someplace fast,’” says investor Timothy M. Ghriskey. “No one says ‘UPS this.’” FedEx is unique in the industry with its system of independent, nonunion truckers.

One key to FedEx’s success has been its commitment to decentralization. While the firm preaches and practices standardization in its day-to-day business activities, managers throughout the firm are encouraged to question, to challenge, and to develop new ideas. These ideas are always given serious consideration by upper management, and the company prides itself on rewarding what seem to be well-developed ideas, even if they are never used.

FedEx continues to innovate, developing a proprietary pocket-size PC in conjunction with Motorola and Microsoft. FedEx was the first shipper to send package information to customers’ cell phones, and the firm is creating software products for small business’s logistics. “Engage in constant change,” is a mantra for CEO Smith, and he adds, “Companies that don’t take risks—some of which are going to work and some of which aren’t—are going to end up getting punched up by the marketplace.”

Entrepreneurship and new ventures

Companies that don’t take risks are going to end up getting punched up by the marketplace.

—Fred Smith, founder and CEO, FedEx

DIVISIONAL STRUCTURE

organizational structure in which corporate divisions operate as autonomous businesses under the larger corporate umbrella

DIVISION

department that resembles a separate business in that it produces and markets its own products

this approach include specialization within functional areas and smoother coordination among them. Experts with specialized training, for example, are hired to work in the marketing department, which handles all of the marketing for the firm.

In large firms, coordination across functional departments becomes more complicated. Functional structure also fosters centralization (which may possibly be desirable but is usually counter to what larger businesses want to do) and makes accountability more difficult. As organizations grow, therefore, they tend to shed this form and move toward one of the other three structures. Figure 6.5 illustrates a functional structure.

DIVISIONAL STRUCTURE

A divisional structure relies on product departmentalization. The firm organizes itself around product-based divisions, each of which may then be managed as a separate enterprise. Organizations using this approach are typically structured around several divisions—departments that resemble separate businesses in that they produce and market their own products. The head of each division may be a corporate vice president or, if the organization is large enough, a divisional president. In addition, each division usually
has its own identity and operates as a relatively autonomous business under the larger corporate umbrella. Figure 6.6 illustrates a divisional structure.

H. J. Heinz is one of the world’s largest food-processing companies. Heinz makes literally thousands of different products and markets them around the world. The firm is organized into seven basic divisions: food service (selling small packaged products, such as mustard and relish to restaurants), infant foods, condiments (Heinz ketchup, steak sauce, and tomato sauce), Star-Kist tuna, pet foods, frozen foods, and one division that handles miscellaneous products, including new lines being test marketed and soups, beans, and pasta products. Because of its divisional structure, Heinz can evaluate the performance of each division independently. Until recently, Heinz also had a division for its Weight Watchers business, but because this business was performing poorly, the company sold the Weight Watchers classroom program and folded its line of frozen foods into its existing frozen-foods division. Because divisions are relatively autonomous, a firm can take such action with minimal disruption to its remaining business operations.

Like Heinz, other divisionalized companies are free to buy, sell, create, and disband divisions without disrupting the rest of their operations. Unilever, for instance, bought the Weight Watchers business from Heinz and kept it functioning as a separate entity. Divisions can maintain healthy competition among themselves by sponsoring separate advertising campaigns, fostering different corporate identities, and so forth. They can also share certain corporate-level resources (such as market research data). If too much control is delegated to divisional managers, corporate managers may lose touch with
daily operations. Competition between divisions can also become disruptive, and efforts in one division may be duplicated by those of another.

### MATRIX STRUCTURE

Sometimes a “combination” structure—one that combines two separate structures—works better than either simpler structure alone. A so-called **matrix structure** is organized along two dimensions, instead of just one, by combining, for example, a functional and a divisional structure. This structure gets its matrix-like appearance, when shown in a diagram, by using one underlying “permanent” organizational structure (say, the divisional structure flowing up-and-down in the diagram), and then superimposing a different organizing framework on top of it (e.g., the functional form flowing side-to-side in the diagram). This structure was pioneered by NASA for use in developing specific space programs. It is a highly flexible form that is readily adaptable to changing circumstances.

Suppose a company is using a functional structure. If, as a one-time special project, it wants to develop a new product, a common approach is to create a project team to be responsible for creating that product. The project team may draw members from existing functional departments, such as finance and marketing, so that all viewpoints are represented as the new product is being developed: The marketing member may provide ongoing information about product packaging and pricing issues, for instance, while the finance member may have useful information about when the funds will be available to pay for various things.

In some companies, the matrix organization is a temporary measure installed to complete a specific project and affecting only one part of the firm. In these firms, the end of the project usually means the end of the matrix—either a breakup of the team or a restructuring to fit it into the company’s existing line-and-staff structure. Ford, for example, uses a matrix organization to design new models, such as the newest Mustang. A design team composed of people from engineering, marketing, operations, and finance was created to design the new car. After its work was done, the team members moved back to their permanent functional jobs.

In other settings, the matrix organization is a semipermanent fixture. Figure 6.7 shows how Omnimedia (the firm founded by Martha Stewart) has created a permanent matrix organization for its burgeoning lifestyle business. As you can see, the company is organized broadly into media and merchandising groups, each of which has specific product and product groups. For instance, there is an Internet group housed within the media group. Layered on top of this structure are teams of lifestyle experts led by area specialists organized into groups, such as cooking, entertainment, weddings, crafts, and so forth. Although each group targets specific customer needs, they all work, as necessary, across all product groups. An area specialist in weddings, for example, might contribute to an article on wedding planning for an Omnimedia magazine, contribute a story idea for an Omnimedia cable television program, and supply content for an Omnimedia site. This same individual might also help select fabrics suitable for wedding gowns that are to be retailed.

### INTERNATIONAL STRUCTURE

As we saw in Chapter 4, many businesses today manufacture, purchase, and sell in the world market. Thus, several different **international organizational structures** have emerged. International organizational structures are developed in response to the need to manufacture, purchase, and sell in global markets.

For example, when Wal-Mart opened its first store outside the United States in 1992, it set up a special projects team to handle the logistics. As more stores were opened abroad in
the mid-1990s, the firm created a small international department to handle overseas expansion. By 1999, however, international sales and expansion had become such a major part of Wal-Mart's operations that the firm created a separate international division headed up by a senior vice president. And by 2002, international operations had become so important to Wal-Mart that the international division was further divided into geographic areas where the firm does business, such as Mexico and Europe. And as the firm expands into more foreign markets, such as China and Brazil, new units are created to oversee those operations.5

Organizations with important international operations often begin with the form of organization outlined in Figure 6.8. Other firms have also developed a wide range of approaches to international organizational structure. The French food giant Danone Group, for instance, has three major product groups: dairy products (Danone yogurts),
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**Figure 6.8**
International Division Structure

bottled water (Evian), and cookies (Pim’s). Danone’s structure does not differentiate internationally but rather integrates global operations within each product group.

Finally, some companies adopt a truly global structure in which they acquire resources (including capital), produce goods and services, engage in research and development, and sell products in whatever local market is appropriate, without any consideration of national boundaries. Until a few years ago, General Electric (GE) kept its international business operations as separate divisions. Now, however, the company functions as one integrated global organization. GE businesses around the world connect and interact with each other constantly, and managers freely move back and forth among them. This integration is also reflected in the top management team. The head of GE’s audit team is French, the head of quality control is Dutch, and a German runs one of GE’s core business groups. 

**What to Call the Boss**

One of the big reasons why global companies are organized in different ways is the culture of their home countries. Consequently, not only organizations but also culture influences the way decisions are made and communicated. In some companies, there’s a big gap between senior management and those on the lower rungs, and communication across the gap is often quite formal. In other companies, because the vertical structure is less rigid, people tend to communicate in more familiar terms.

German companies, for example, tend to have fairly rigid structures, with jobs, authority, and responsibility clearly defined. Likewise, people in German organizations tend to respect status and titles. They’re usually respectful of superiors and continue to use last names even when they’re communicating with people they’ve known for years. Surprisingly, when it comes to decision making, German companies like to keep everyone in the loop and be sure that people at all levels know what’s going on.

In contrast, U.S. companies tend to have formal organizational structures while fostering communication—

even between senior managers and lower-level workers—that’s often casual and easygoing, right down to the use of first names. Bosses command respect, but once they’re outside the workplace, people from different levels tend to interact quite easily.

In many Latin American and South American cultures, bosses have a great deal of power and authority, and workers give them a corresponding degree of respect. Mexican workers sometimes call the boss *patrón*, and as the title suggests, the *patrón* is expected to provide employees with more than orders in the workplace: He’s supposed to be a source of moral support and even material assistance and is a regular guest at weddings, funerals, and christenings (where he’s often called on to serve as godfather).

Sensitivity to local workplace behavior and attitudes—to the ways in which information is communicated and authority exercised and accepted—is one of the most important qualities that a global company can bring to its relationships with foreign organizations.
As the world grows increasingly complex and fast-paced, organizations also continue to seek new forms of organization that permit them to compete effectively. Among the most popular of these new forms are the team organization, the virtual organization, and the learning organization.

**Team Organization** Team organization relies almost exclusively on project-type teams, with little or no underlying functional hierarchy. People float from project to project as dictated by their skills and the demands of those projects. As the term suggests, team authority is the underlying foundation of organizations that adopt the team organizational structure. At Cypress Semiconductor, CEO T. J. Rodgers refuses to allow the organization to grow so large that it can’t function at that size. Whenever a unit or group starts getting too large, he simply splits it into smaller units. Therefore, the organization is composed entirely of small units. This strategy allows each unit to change direction, explore new ideas, and try new methods without having to deal with a rigid bureaucratic superstructure. Although few large organizations have actually reached this level of adaptability, Apple Computer and Xerox are among those moving toward it.

**Virtual Organization** Closely related to the team organization is the virtual organization. A virtual organization has little or no formal structure. Typically, it has only a handful of permanent employees, a very small staff, and a modest administrative facility. As the needs of the organization change, its managers bring in temporary workers, lease facilities, and outsource basic support services to meet the demands of each unique situation. As the situation changes, the temporary workforce changes in parallel, with some people leaving the organization and others entering. Facilities and the subcontracted services also change. In other words, the virtual organization exists only in response to its own needs.

Global Research Consortium (GRC) is a virtual organization. GRC offers research and consulting services to firms doing business in Asia. As clients request various services, GRC’s staff of three permanent employees subcontracts the work to an appropriate set of several dozen independent consultants and researchers with whom it has relationships. At any given time, therefore, GRC may have several projects underway with 20 or 30 people working on various projects. As the projects change, so too does the composition of the organization. Figure 6.9 illustrates a hypothetical virtual organization.

**Learning Organization** The so-called learning organization works to integrate continuous improvement with continuous employee learning and development. Specifically, a learning organization works to facilitate the lifelong learning and personal development of all of its employees while continually transforming itself to respond to changing demands and needs.

While managers might approach the concept of a learning organization from a variety of perspectives, the most frequent goals are improved quality, continuous improvement, and performance measurement. The idea is that the most consistent and logical strategy for achieving continuous improvement is to constantly upgrade employee talent, skill, and knowledge. For example, if each employee in an organization learns one new thing each day and can translate that knowledge into work-related practice, continuous improvement will logically follow. Indeed, organizations that wholeheartedly embrace
this approach believe that only through constant employee learning can continuous improvement really occur.

In recent years, many different organizations have implemented this approach on various levels. Shell Oil, for example, recently purchased an executive conference center north of its headquarters in Houston. Called the Shell Learning Center, the facility boasts state-of-the-art classrooms and instructional technology, lodging facilities, a restaurant, and recreational amenities, such as a golf course, swimming pool, and tennis courts. Line managers at the firm rotate through the center and serve as teaching faculty. Teaching assignments last anywhere from a few days to several months. At the same time, all Shell employees routinely attend training programs, seminars, and related activities, all the while gathering the latest information they need to have to contribute more effectively to the firm. Recent seminar topics have included time management, implications of the Americans with Disabilities Act, balancing work and family demands, and international trade theory.

INFORMAL ORGANIZATION

The formal organization of a business is the part that can be seen and represented in chart form. The structure of a company, however, is by no means limited to the organization chart and the formal assignment of authority. Frequently, the informal organization—everyday social interactions among employees that transcend formal jobs and job interrelationships—effectively alters a company’s formal structure. This level of organization is sometimes just as powerful—if not more powerful—than the formal structure. For instance, Hewlett-Packard fired its CEO, Carly Fiorina, in mid-2005. Much of the discussion that led to her firing took place outside of formal structural arrangements in the organization—members of the board of directors, for example, held secret meetings and reached confidential agreements among themselves before Fiorina’s future with the company was addressed in a formal manner.

On the negative side, the informal organization can also reinforce office politics that put the interests of individuals ahead of those of the firm. Likewise, a great deal of harm can be caused by distorted or inaccurate information communicated without management input or review. For example, if the informal organization is highlighting false information about impending layoffs, valuable employees may act quickly (and unnecessarily) to seek other employment. Among the more important elements of the informal organization are informal groups and the organizational grapevine.
**INFORMAL GROUPS**

*Informal groups* are simply groups of people who decide to interact among themselves. They may be people who work together in a formal sense or who just get together for lunch, during breaks, or after work. They may talk about business, the boss, or nonwork-related topics like families, movies, or sports. Their impact on the organization may be positive (if they work together to support the organization), negative (if they work together in ways that run counter to the organization’s interests), or irrelevant (if what they do is unrelated to the organization).

**ORGANIZATIONAL GRAPEVINE**

The *grapevine* is an informal communication network that can run through an entire organization. Grapevines are found in all organizations except the very smallest, but they do not always follow the same patterns as formal channels of authority and communication, nor do they necessarily coincide with them. Because the grapevine typically passes information orally, such information often becomes distorted in the process.

Attempts to eliminate the grapevine are fruitless, but, fortunately, managers do have some control over it. By maintaining open channels of communication and responding vigorously to inaccurate information, they can minimize the damage the grapevine can cause. The grapevine can actually be an asset. By getting to know the key people in the grapevine, for example, the manager can partially control the information they receive and use the grapevine to sound out employee reactions to new ideas (for example, a change in human resource policies or benefit packages). The manager can also get valuable information from the grapevine and use it to improve decision making.

**INTRAPRENEURING**

Sometimes, organizations actually take steps to encourage the informal organization. They do so for a variety of reasons, two of which we have already discussed. First, most experienced managers recognize that the informal organization exists whether they want it or not. Second, many managers know how to use the informal organization to reinforce the formal organization. Perhaps more important, however, the energy of the informal organization can be harnessed to improve productivity.

Many firms, including Rubbermaid, 3M, and Xerox, support a process called *intrapreneuring*: creating and maintaining the innovation and flexibility of a small-business environment within the confines of a large, bureaucratic structure. The concept is basically sound. Historically, most innovations have come from individuals in small businesses. As businesses increase in size, however, innovation and creativity tend to become casualties in the battle for more sales and profits. In some large companies, new ideas are even discouraged, and champions of innovation have been stalled in midcareer.

Compaq, now part of Hewlett-Packard, is an excellent example of how intrapreneuring works to counteract this trend. The firm has one major division, the New Business Group. When a manager or engineer has an idea for a new product or product application, the individual takes it to the New Business Group and “sells” it. The managers in the group itself are then encouraged to help the innovator develop the idea for field testing. If the product takes off and does well, it is then spun off into its own new business group or division. If it doesn’t do as well as hoped, it may still be maintained as part of the New Business Group, or it may be phased out.
IS THERE SYNERGY AMONG BAKED GOODS, SHOE POLISH, AND UNDERWEAR?

Sara Lee’s CEO, C. Steven McMillan, tried a number of new tricks to get Sara Lee back on track. One bold move was developing a chain of retail stores named Inner Self. Each store features a spa-like atmosphere in which to sell Sara Lee’s Hanes, Playtex, Bali, and Wonderbra products. Susan Nedved, head of development for Inner Self, thinks that the company-owned stores provide a more realistic and comforting environment for making underwear purchases than do some specialty outlets. “There seems to be an open void for another specialty concept that complements Victoria’s Secret,” says Nedved. “There was a need for shopping alternatives that really cater to the aging population.”

By 2005, though, it was clear that new perspectives were needed. So, Sara Lee’s board of directors made a change at the top, promoting Brenda Barnes, a senior vice president, to run the company. Barnes initially maintained the same approach—more centralization, coordination, and focus—to get Sara Lee back on track. But many observers were not optimistic that this would work. As for Inner Self and underwear, one analyst points out that “even if you fix that business, it’s still apparel, and it’s not really viewed as a high-value-added business.”

By 2006, Barnes realized that more drastic measures were needed. While the company was posting substantial profits at the corporate level, most of those profits came from only a few businesses, while more than half of the individual businesses were losing money. So, she and her executive team began drawing up plans to break the company into several smaller, more focused, more profitable companies. The firm also announced its intentions to sell perhaps as many as one-third of the businesses it owns.

QUESTIONS FOR DISCUSSION

1. Describe the basic structural components at Sara Lee.
2. What role does specialization play at Sara Lee?
3. What kinds of authority are reflected in this case?
4. What kind of organizational structure does Sara Lee seem to have?
5. What role may the informal organization have played in Sara Lee’s various acquisitions and divestitures?
1 Discuss the factors that influence a firm’s organizational structure.

Each organization must develop an appropriate organizational structure—the specification of the jobs to be done and the ways in which those jobs relate to one another. Most organizations change structures almost continuously. Firms prepare organization charts to clarify structure and to show employees where they fit into a firm’s operations. Each box represents a job, and solid lines define the chain of command, or reporting relationships. The charts of large firms are complex and include individuals at many levels. Because size prevents them from charting every manager, they may create single organization charts for overall corporate structure and separate charts for divisions.

2 Explain specialization and departmentalization as two of the building blocks of organizational structure.

The process of identifying specific jobs and designating people to perform them leads to job specialization. After they’re specialized, jobs are grouped into logical units—the process of departmentalization. Departmentalization follows one (or any combination) of five forms: (1) product departmentalization, (2) process departmentalization, (3) functional departmentalization, (4) customer departmentalization, or (5) geographic departmentalization. Larger companies take advantage of different types of departmentalization for various levels.

3 Describe centralization and decentralization, delegation, and authority as the key ingredients in establishing the decision-making hierarchy.

After jobs have been specialized and departmentalized, firms establish decision-making hierarchies. One major issue addressed through the creation of the decision-making hierarchy involves whether the firm will be relatively centralized or relatively decentralized. Centralized authority systems typically require multiple layers of management and thus tall organizational structures. Decentralized firms tend to have relatively fewer layers of management, resulting in a flat organizational structure. Delegation is the process through which a manager allocates work to subordinates. In general, the delegation process involves three steps: (1) the assignment of responsibility, (2) the granting of authority, and (3) the creation of accountability. As individuals are delegated responsibility and authority in a firm, a complex web of interactions develops. These interactions may take one of three forms of authority: line, staff, or committee and team.

4 Explain the differences among functional, divisional, matrix, and international organizational structures and describe the most popular new forms of organizational design.

Most firms rely on one of four basic forms of organizational structure: (1) functional, (2) divisional, (3) matrix, or (4) international. As global competition becomes more complex, companies may experiment with ways to respond. Some adopt truly global structures, acquiring resources and producing and selling products in local markets without consideration of national boundaries. Organizations also continue to seek new forms of organization that permit them to compete effectively. The most popular new forms include (1) team organization, (2) virtual organization, and (3) learning organization.

5 Describe the informal organization and discuss intrapreneuring.

The formal organization is the part that can be represented in chart form. The informal organization—everyday social interactions among employees that transcend formal jobs and job interrelationships—may alter formal structure. There are two important elements in most informal organizations. Informal groups consist of people who decide to interact among themselves. Their impact on a firm may be positive, negative, or irrelevant. The grapevine is an informal communication network that can run through an entire organization. Because it can be harnessed to improve productivity, some organizations encourage the informal organization. Many firms also support intrapreneuring—creating and maintaining the innovation and flexibility of a small business within the confines of a large, bureaucratic structure.
Questions for Review
1. What is an organization chart? What purpose does it serve?
2. Explain the significance of size as it relates to organizational structure. Describe the changes that are likely to occur as an organization grows.
3. What is the difference between responsibility and authority?
4. Why do some managers have difficulties in delegating authority?
5. Why is a company’s informal organization important?

Questions for Analysis
6. Draw up an organization chart for your college or university.
7. Describe a hypothetical organizational structure for a small printing firm. Describe changes that might be necessary as the business grows.

8. Compare and contrast the matrix and divisional approaches to organizational structure. How would you feel personally about working in a matrix organization in which you were assigned simultaneously to multiple units or groups?

Application Exercises
9. Interview the manager of a local service business, such as a fast-food restaurant. What types of tasks does this manager typically delegate? Is the appropriate authority also delegated in each case?
10. Using books, magazines, or personal interviews, identify a person who has succeeded as an intrapreneur. In what ways did the structure of the intrapreneur's company help this individual succeed? In what ways did the structure pose problems?
Chapter 6: Organizing the Business

GETTING WITH THE PROGRAM

Goal
To encourage you to understand the relationship between organizational structure and a company's ability to attract and keep valued employees.

Background Information
You are the founder of a small but growing high-tech company that develops new computer software. With your current workload and new contracts in the pipeline, your business is thriving, except for one problem: You cannot find computer programmers for product development. Worse yet, current staff members are being lured away by other high-tech firms. After suffering a particularly discouraging personnel raid in which competitors captured three of your most valued employees, you schedule a meeting with your director of human resources to plan organizational changes designed to encourage worker loyalty. You already pay top dollar, but the continuing exodus tells you that programmers are looking for something more.

Method
Working with three or four classmates, identify some ways in which specific organizational changes might improve the working environment and encourage employee loyalty. As you analyze the following factors, ask yourself the obvious question: If I were a programmer, what organizational changes would encourage me to stay?

■ Level of job specialization. With many programmers describing their jobs as tedious because of the focus on detail in a narrow work area, what changes, if any, would you make in job specialization? Right now, for instance, few of your programmers have any say in product design.

■ Decision-making hierarchy. What decision-making authority would encourage people to stay? Is expanding employee authority likely to work better in a centralized or decentralized organization?

■ Team authority. Can team empowerment make a difference? Taking the point of view of the worker, describe the ideal team.

■ Intrapreneuring. What can your company do to encourage and reward innovation?

FOLLOW-UP QUESTIONS

1. With the average computer programmer earning nearly $70,000, and with all competitive firms paying top dollar, why might organizational issues be critical in determining employee loyalty?

2. If you were a programmer, what organizational factors would make a difference to you? Why?

3. As the company founder, how willing would you be to make major organizational changes in light of the shortage of qualified programmers?
MINDING YOUR OWN BUSINESS

The Situation
Assume that you have recently gone to work for a large high-tech company. You have discovered an interesting arrangement in which one of your coworkers is engaging. Specifically, he blocks his schedule for the hour between 11:00 a.m. and 12:00 noon each day and does not take a lunch break. During this one-hour interval, he is actually running his own real estate business.

The Dilemma
You recently asked this employee how he manages to pull this off. “Well,” he responded, “the boss and I never talked about it, but she knows what’s going on. They know they can’t replace me, and I always get my work done. I don’t use any company resources. So, what’s the harm?” Interestingly, you also have a business opportunity that could be pursued in the same way.

QUESTION TO ADDRESS
1 What are the ethical issues in this situation?
2 What do you think most people would do in this situation?
3 What would you do in this situation?
TO POACH, OR NOT TO POACH . . .

The Situation
The Hails Corporation, a manufacturing plant, has recently moved toward an all-team-based organization structure. That is, all workers are divided into teams. Each team has the autonomy to divide up the work assigned to it among its individual members. In addition, each team handles its own scheduling for members to take vacations and other time off. The teams also handle the interviews and hiring of new team members when the need arises. Team A has just lost one of its members who moved to another city to be closer to his ailing parents.

The Dilemma
Since moving to the team structure, every time a team has needed new members, it has advertised in the local newspaper and hired someone from outside the company. However, Team A is considering a different approach to fill its opening. Specifically, a key member of another team (Team B) has made it known that she would like to join Team A. She likes the team members, sees the team’s work as being enjoyable, and is somewhat bored with her team’s current assignment.

The concern is that if Team A chooses this individual to join the team, several problems may occur. For one thing, her current team will clearly be angry with the members of Team A. Further, “poaching” new team members from other teams inside the plant is likely to become a common occurrence. On the other hand, though, it seems reasonable that she should have the same opportunity to join Team A as an outsider would. Team A needs to decide how to proceed.

Team Activity
Assemble a group of four students and assign each group member to one of the following roles:
- Member of Team A
- Member of Team B
- Manager of both teams
- Hails investor

ACTION STEPS
1. Before hearing any of your group’s comments on this situation, and from the perspective of your assigned role, do you think that the member of Team B should be allowed to join Team A? Write down the reasons for your position.
2. Before hearing any of your group’s comments on this situation, and from the perspective of your assigned role, what are the underlying ethical issues, if any, in this situation? Write down the issues.
3. Gather your group together and reveal, in turn, each member’s comments on the situation. Next, reveal the ethical issues listed by each member.
4. Appoint someone to record main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
5. From an ethical standpoint, what does your group conclude is the most appropriate action that should be taken by Hails in this situation? Should Team B’s member be allowed to join Team A?
6. Develop a group response to the following questions: Assuming Team A asks the Team B member to join its team, how might it go about minimizing repercussions? Assuming Team A does not ask the Team B member to join its team, how might it go about minimizing repercussions?


JUICING UP THE ORGANIZATION: NANTUCKET NECTARS

Learning Objectives
The purpose of this video is to help you:
1. Recognize how growth affects an organization’s structure.
2. Discuss the reasons why businesses departmentalize.
3. Understand how flat organizations operate.

Synopsis
Tom Scott and Tom First founded Nantucket Nectars in 1989 when they had an idea for a peach drink. In the early days, the two ran the entire operation from their boat. Now, Nantucket Nectars has more than 130 employees split between headquarters in Cambridge, Massachusetts, and several field offices. As a result, management has developed a more formal structure, and the company relies on cross-functional teams to handle special projects, such as the implementation of new accounting software. This and other strategies have helped Nantucket Nectars successfully manage rapid growth.

DISCUSSION QUESTIONS
1. For analysis: What type of organization is in place at Nantucket Nectars?
2. For analysis: How would you describe the top-level span of control at Nantucket Nectars?
3. For application: Nantucket Nectars may need to change its organizational structure as it expands into new products and new markets. Under what circumstances might some form of divisional organization be appropriate?
4. For application: Assume that Nantucket Nectars is purchasing a well-established beverage company with a tall structure stressing top-down control. What are some of the problems that management might face in integrating the acquired firm into the existing organizational structure of Nantucket Nectars?
5. For debate: Assume that someone who is newly promoted into a management position at Nantucket Nectars cannot adjust to the idea of delegating work to lower-level employees. Should this new manager be demoted? Support your chosen position.

Online Exploration
Visit the Nantucket Nectars site (www.juiceguys.com) and follow the links about the company and its products. Then use the Internet to search for the latest news about the company, which is formally known as Nantucket Allserve. Has it been acquired by a larger company, or has it acquired one or more smaller firms? What are the implications for the chain of command, the decision making, and the organizational structure of Nantucket Nectars?