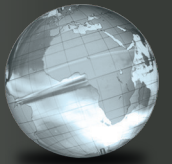


GLOBAL
EDITION



Business Essentials

Thirteenth Edition

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b u s i n e s s **e s s e n t i a l s**

Work Team groups of operating employees who are empowered to plan and organize their own work and to perform that work with a minimum of supervision

At the operating level, many firms today also use **work teams** that are empowered to plan, organize, and perform their work with minimal oversight and often with special authority as well. Most U.S. companies today use teams in at least some areas; some make widespread use of teams throughout every area of their operations.

Basic Forms of Organizational Structure

OBJECTIVE 6-4

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

Functional Structure organization structure in which authority is determined by the relationships between group functions and activities

Organizations can structure themselves in an almost infinite number of ways; according to specialization, for example, or departmentalization or the decision-making hierarchy. Nevertheless, it is possible to identify four basic forms of organizational structure that reflect the general trends followed by most firms: (1) *functional*, (2) *divisional*, (3) *matrix*, and (4) *international*.

Functional Structure

Under a **functional structure**, relationships between group functions and activities determine authority. Functional structure is used by most small- to medium-sized firms, which are usually structured around basic business functions: a marketing department, an operations department, and a finance department. The benefits of this approach include specialization within functional areas and smoother coordination among them.

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

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

Divisional Structure

A **divisional structure** relies on product departmentalization. Organizations using this approach are typically structured around several product-based **divisions** 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.

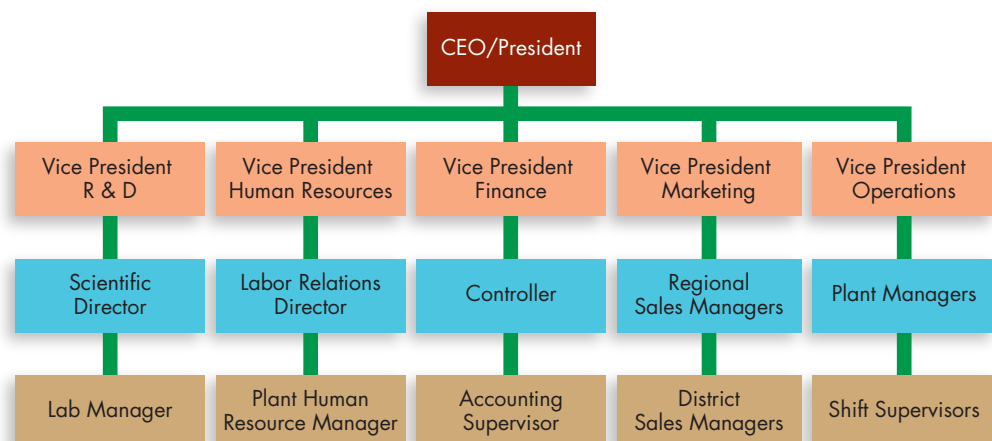


FIGURE 6.5 Functional Structure

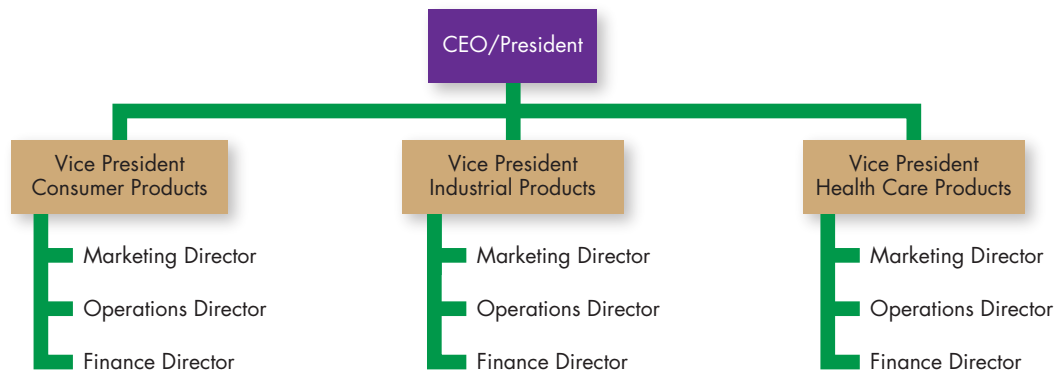


FIGURE 6.6 Divisional Structure

Johnson & Johnson, one of the most recognizable names in health care products, organizes its company into three major divisions: consumer health care products, medical devices and diagnostics, and pharmaceuticals. Each major division is then broken down further. The consumer health care products division relies on product departmentalization to separate baby care, skin and hair care, topical health care, oral health care, women’s health, over-the-counter medicines, and nutritionals. These divisions reflect the diversity of the company, which can help shield it from revenue loss during downturns such as the economic damage that accompanied the 2020 COVID-19 pandemic. Because they are separate, the other divisions may be insulated from downturns that affect only some segments of the economy.

Consider also that Johnson & Johnson’s over-the-counter pain management medicines are essentially competition for their pain management pharmaceuticals. 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). However, if too much control is delegated to divisional managers, corporate managers may lose touch with daily operations. Also, competition between divisions can become disruptive, and efforts in one division may duplicate those of another.¹²

Matrix Structure

Sometimes a **matrix structure**, a combination of two separate structures, works better than either simpler structure alone. 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 highly flexible and readily adaptable structure was pioneered by National Aeronautics and Space Administration (NASA) for use in developing specific space programs.

Suppose a company using a functional structure wants to develop a new product as a one-time special project. A team might be created and given responsibility for 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, and the finance member may have useful information about when funds will be available.

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 2020 Mustang. A design team composed of people with engineering, marketing, operations, and

Matrix Structure *organizational structure created by superimposing one form of structure onto another*

finance expertise was created to design the newest version of the iconic sports car. After the team's work was done, the team members moved back to their permanent functional jobs.¹³

In other settings, the matrix organization is a semipermanent fixture. Figure 6.7 shows how Martha Stewart Living Omnimedia has created a permanent matrix organization for its lifestyle business. As you can see, the company is organized broadly into media and merchandising groups, each of which has specific products and product groups. For instance, an Internet group is 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,

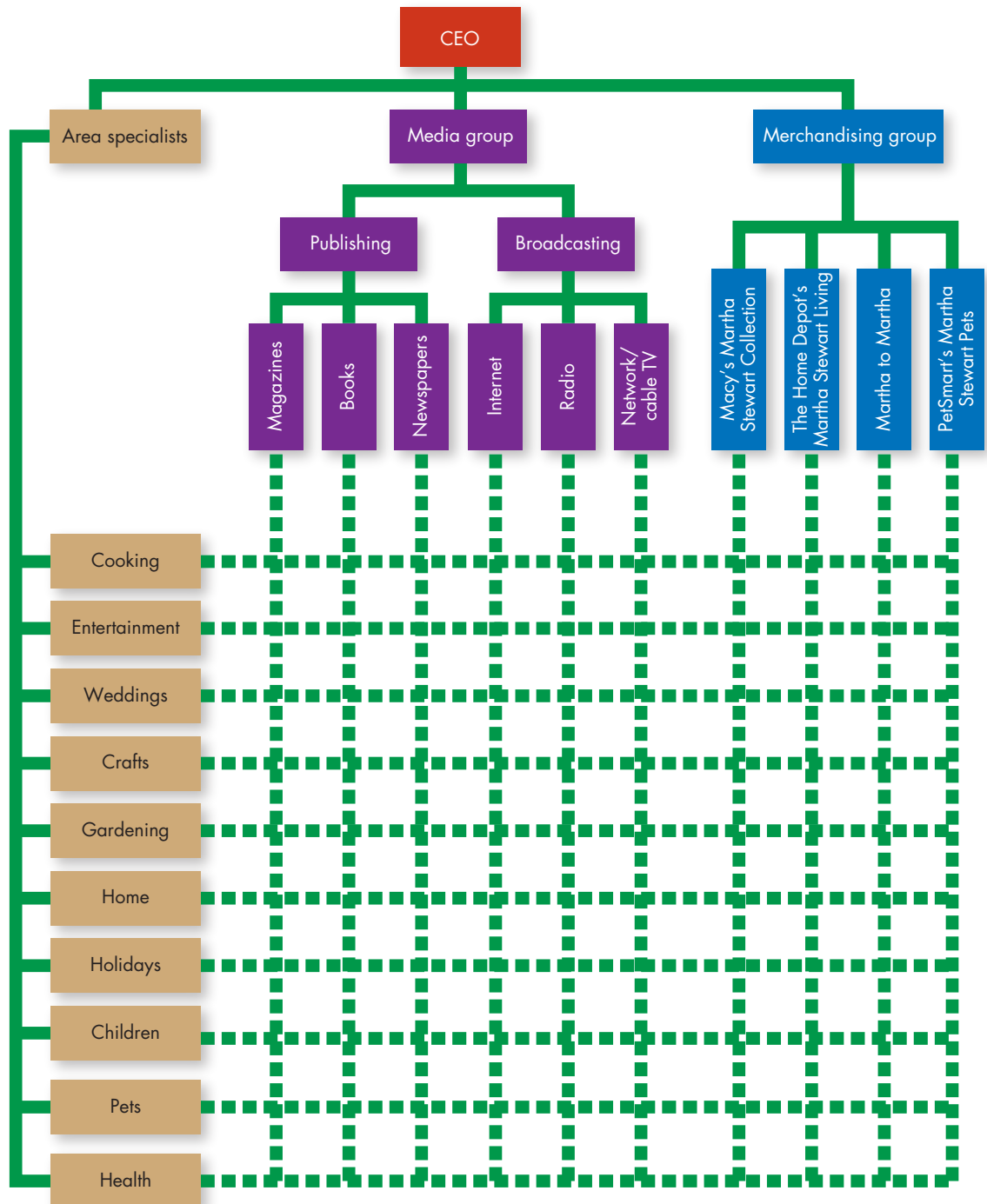


FIGURE 6.7 Matrix Organization of Martha Stewart Living Omnimedia

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

Several different **international organizational structures** are also common among firms that actively manufacture, purchase, and sell in global markets. These structures also evolve over time as a firm becomes more globalized. For example, when Walmart opened its first store outside the United States in 1992, it set up a special projects team. In the mid-1990s, the firm created a small international department to handle overseas expansion. Several years later, international sales and expansion had become such a major part of operations that a separate international division headed up by a senior vice president was created. International operations have now become so important to Walmart that the international division has been further divided into geographic areas, such as Mexico and Europe. And as the firm expands into more foreign markets, such as Africa and India, new units have been created to oversee those operations.

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 consideration of national boundaries. Until a few years ago, General Electric (GE) kept its international business operations as separate divisions, as illustrated in Figure 6.8. 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 GE's executive team, which includes executives from the United States, Spain, China, Sweden, France, and England.

International Organizational Structures approaches to organizational structure developed in response to the need to manufacture, purchase, and sell in global markets

New Forms of Organizational Structure

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 rotate from project to project as dictated by their skills and the demands of those projects. In some cases employees may be a part of multiple teams at the same time. At Texas Instruments, for example, most managers are assigned to one “priority” team to which they devote

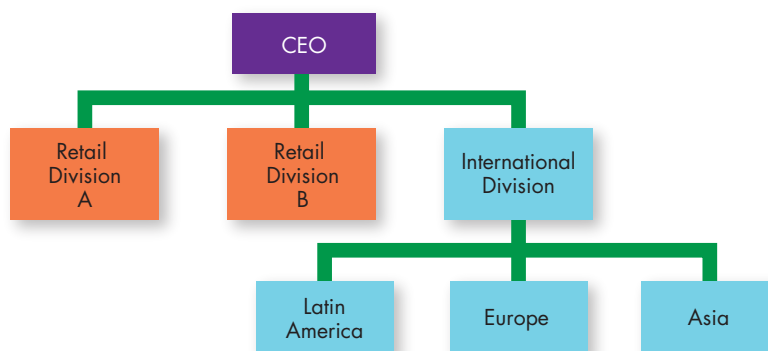


FIGURE 6.8 International Division Structure

more than half their time and two or three “secondary” teams, each of which gets a smaller amount of their time. As the term suggests, team authority is the underlying foundation of organizations that adopt this organizational structure.

Virtual Organization Another increasingly common type of structure is the *virtual organization*. A virtual organization has little or no formal structure. Typically, it has only a handful of permanent employees, a 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 and requirements. This structure would be applicable to research or consulting firms that hire consultants based on the specific content knowledge required by each unique project. 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.

Although managers might approach the concept of a learning organization from a variety of perspectives, the most frequent goals are superior quality, continuous improvement, and ongoing 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. Shell Oil’s Shell Learning Center boasts state-of-the-art classrooms and instructional technology, lodging facilities, a restaurant, and recreational amenities. Line managers rotate through the center to fulfill teaching assignments, and Shell employees routinely attend training programs, seminars, and related activities.

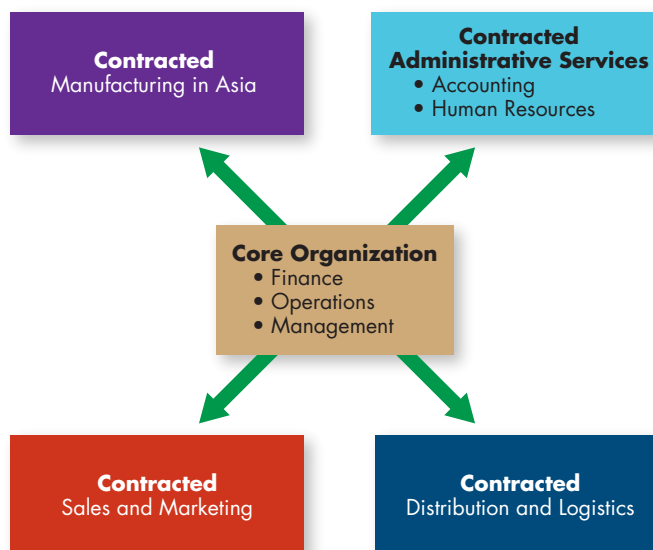


FIGURE 6.9 The Virtual Organization

Informal Organization

OBJECTIVE 6-5

Describe the informal organization and discuss intrapreneuring.

The structure of a company, however, is by no means limited to the *formal organization* as represented by 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.¹⁴ This level of organization is sometimes just as powerful—if not more powerful—than the formal structure. When HP fired its CEO, Carly Fiorina, several years ago, much of the discussion that led to her firing took place outside 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.¹⁵ In most cases, however, their very nature makes it hard to document these kinds of secret meetings and backroom deals.

Informal Organization *network, unrelated to the firm's formal authority structure, of everyday social interactions among company employees*

On the negative side, the informal organization can reinforce office politics that put the interests of individuals ahead of those of the firm and can disseminate distorted or inaccurate information. For example, if the informal organization is highlighting false information about impending layoffs, valuable employees may act quickly (and unnecessarily) to seek other employment.

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 non-work-related topics such as 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).

Informal groups can be a powerful force that managers cannot ignore.¹⁶ One classic study described how a group of employees at a furniture factory subverted their boss's efforts to increase production. They tacitly agreed to produce a reasonable amount of work but not to work too hard. One man kept a stockpile of completed work hidden as a backup in case he got too far behind. In another example, auto workers described how they left out gaskets and seals and put soft-drink bottles inside car doors to cause customer complaints.¹⁷ Of course, informal groups can also be a positive force, as when people work together to help out a colleague who has suffered a personal tragedy. For example, several instances of this behavior were reported in the wake of devastating tornadoes that swept through Alabama and Missouri in 2011 and after Hurricane Sandy devastated parts of the Northeast in 2012. Numerous accounts have also surfaced of people banding together to help coworkers and neighbors during the 2020 COVID-19 pandemic.

In recent years, various online platforms have served as a catalyst for the emergence of more and different kinds of informal or interest groups. As one example, Chevron uses its internal network to facilitate a wide array of interest groups that bring together people with common interests. And increasingly, workers who lose their jobs as a result of layoffs band together digitally to offer moral support to one another and to facilitate networking as they all look for new jobs.¹⁸ Indeed, social media plays a major role in informal groups today.

Organizational Grapevine

The **grapevine** is an informal communication network that can permeate an entire organization. Grapevines are found in all organizations except the smallest, but they do not always follow the same patterns as, nor do they necessarily coincide with, formal channels of authority and communication. Research has identified two kinds of grapevines.¹⁹ One such grapevine, the gossip chain, occurs when one person spreads the message to many other people. Each one, in turn, may either keep the

Grapevine *informal communication network that runs through an organization*