

Chapter 6

Decision Making

Decisions

–choices from two or more alternatives

–all organizational members make decisions

Decision-Making Process

–a comprehensive, 8-step process

–**Step 1 - Identifying a Problem**

•**problem** - discrepancy between an existing and a desired state of affairs

–must be such that it exerts pressure to act

–manager is unlikely to characterize a situation as a problem unless s/he has resources necessary to act

The Decision-Making Process

Decision Making (cont.)

Decision-Making Process (cont.)

–**Step 2 - Identifying Decision Criteria**

•**decision criteria** - what's relevant in making a decision

–**Step 3 - Allocating Weights to the Criteria**

•must weight the criteria to give them appropriate priority in the decision

–**Step 4 - Developing Alternatives**

•list the viable alternatives that could resolve the problem without evaluating them

–**Step 5 - Analyzing Alternatives**

•each alternative is evaluated against the criteria

Assessed Values of Notebook Computer Alternatives Against Decision Criteria

Evaluation of Laptop Computer Alternatives Against Criteria and Weights

Decision Making (cont.)

Decision-Making Process (cont.)

–**Step 6 - Selecting an Alternative**

•choosing the best alternative from among those considered

–**Step 7 - Implementing the Alternative**

•**implementation** - conveying the decision to those affected by it and getting their commitment to it

–participation in decision-making process inclines people to support the decision

–decision may fail if it is not implemented properly

–**Step 8 - Evaluating Decision Effectiveness**

•determine whether the problem is resolved

Decisions in the Management Functions

The Manager As Decision Maker

Rational Decision Making

–decisions are consistent, value-maximizing choices within specified constraints

–managers assumed to make rational decisions

–**Assumptions of Rationality** - decision maker would:

- be objective and logical
- carefully define a problem
- have a clear and specific goal
- select the alternative that maximizes the likelihood of achieving the goal
- make decision in the firm’s best *economic* interests
- managerial decision making seldom meets all the tests

Assumptions Of Rationality

The Manager As Decision Maker (cont.)

Bounded Rationality

- behave rationally within the parameters of a simplified decision-making process that is limited by an individual’s ability to process information
- satisfice* - accept solutions that are “good enough”
- escalation of commitment* - increased commitment to a previous decision despite evidence that it may have been wrong
- refusal to admit that the initial decision may have been flawed

The Manager As Decision Maker (cont.)

Role of Intuition

- intuitive decision making* - subconscious process of making decisions on the basis of experience and accumulated judgment
- does not rely on a systematic or thorough analysis of the problem
- generally complements a rational analysis

What Is Intuition?

The Manager As A Decision Maker (cont.)

Types of Problems and Decisions

- Well-Structured Problems* - straightforward, familiar, and easily defined
- Programmed Decisions* - used to address structured problems
- minimize the need for managers to use discretion
- facilitate organizational efficiency
- procedure* - series of interrelated sequential steps used to respond to a structured problem
- rule* - explicit statement of what to do or not to do
- policy* - guidelines or parameters for decision making

The Manager As A Decision Maker (cont.)

Types of Problems and Decisions (cont.)

- Poorly-Structured Problems* - new, unusual problems for which information is ambiguous or incomplete
- Nonprogrammed Decisions* - used to address poorly- structured problems
- produce a custom-made response
- more frequent among higher-level managers
- few decisions in the real world are either fully programmed or nonprogrammed

Types Of Problems, Types Of Decisions, And Level In The Organization

The Manager As A Decision Maker (cont.)

Decision-Making Conditions

—**Certainty** - outcome of every alternative is known

- idealistic rather than realistic

—**Risk** - able to estimate the probability of outcomes stemming from each alternative

- expected value** - the conditional return from each possible outcome

—multiply expected revenue from each outcome by the probability of each outcome

Expected Value for Revenues from the Addition of One Ski Lift

The Manager As A Decision Maker (cont.)

Decision-Making Conditions (cont.)

—**Uncertainty** - not certain about outcomes and unable to estimate probabilities

- psychological orientation of decision maker

—**maximax** choice - optimistic

»maximizing the maximum possible payoff

—**maximin** choice - pessimistic

»maximizing the minimum possible payoff

—**minimax** - minimize the maximum “regret”

Payoff Matrix

Regret Matrix

The Manager As A Decision Maker (cont.)

Decision-Making Styles

—two dimensions define the approach to decision making

- way of thinking** - differs from rational to intuitive

- tolerance for ambiguity** - differs from a need for consistency and order to the ability to process many thoughts simultaneously

—define four decision-making styles

- Directive** - fast, efficient, and logical

- Analytic** - careful and able to adapt or cope with new situations

- Conceptual** - able to find creative solutions

- Behavioral** - seek acceptance of decisions

Decision-Making Styles

Managing Workforce Diversity

Diversity in Decision Making

—Advantages - diverse employees:

- provide fresh perspectives
- offer differing interpretations of problem definition
- increase the likelihood of creative and unique solutions

—Disadvantages - diverse employees:

- require more time to reach a decision
- may have problems of communication
- may create a more complex, confusing, and ambiguous decision-making process
- may have difficulty in reaching agreement

Chapter 7

What Is Planning?

Planning

—involves defining the organization's goals, establishing an overall strategy, and developing a comprehensive set of plans to integrate and coordinate organizational work

—**informal planning** - nothing is written down

- little or no sharing of goals
- general and lacking in continuity

—**formal planning** - written

- defines specific goals
- specific action programs exist to achieve goals

Why Do Managers Plan?

Purposes of Planning

—planning is the primary management function that establishes the basis for all other management functions

—planning establishes coordinated effort

—planning reduces uncertainty

—planning reduces overlapping and wasteful activities

—planning establishes goals and standards used in controlling

Why Do Managers Plan? (cont.)

Planning and Performance

—generally speaking, formal planning is associated with:

- higher profits
- higher return on assets

—quality of the planning process and the appropriate implementation of the plans probably contribute more to high performance than does the extent of planning

—external environment may undermine the effects of formal planning

—planning/performance relationship is influenced by the planning time frame

How Do Managers Plan?

The Role of Goals and Plans in Planning

—**goals** - desired outcomes

- provide direction for all management decisions
- represent the criteria against which actual work accomplishments can be measured

—**plans** - outline how goals are going to be met

—**Types of Goals**

- all organizations have multiple objectives
- no single measure can evaluate whether an organization is successful
- **financial goals** - relate to financial performance

•**strategic goals** - relate to other areas of performance

Stated Objectives From Large US Companies

How Do Managers Plan? (cont.)

The Role of Goals and Plans in Planning (cont.)

—**Types of Goals** (cont.)

•**stated goals** - official statements of the organization's goals

•**real goals** - those goals that an organization actually pursues

How Do Managers Plan? (cont.)

The Role of Goals and Plans in Planning (cont.)

—**Types of Plans**

•**strategic plans** - apply to the entire organization

—establish organization's overall goals

—seek to position the organization in terms of its environment

•**operational plans** - specify the details of how the overall goals are to be achieved

—tend to cover short time periods

Types Of Plans

How Do Managers Plan? (cont.)

The Role of Goals and Plans in Planning (cont.)

—**Types of Plans** (cont.)

•**long-term plans** - time frame beyond three years

—definition of long term has changed with increasingly uncertain organizational environments

•**short-term plans** - cover one year or less

•**specific plans** - clearly defined with little room for interpretation

—required clarity and predictability often do not exist

•**directional plans** - flexible plans that set out general guidelines

—provide focus without limiting courses of action

Specific Versus Directional Plans

How Do Managers Plan? (cont.)

The Role of Goals and Plans in Planning (cont.)

—**Types of Plans** (cont.)

•**single-use plans** - one-time plans specifically designed to meet the needs of a unique situation

•**standing plans** - ongoing plans that provide guidance for activities performed repeatedly

—include policies, procedures, and rules

How Do Managers Plan? (cont.)

Establishing Goals

—**Approaches to Establishing Goals**

•**traditional goal setting** - overall goals established at the top of the organization

—overall goals broken down into subgoals for each level of the organization

»higher-level goals must be made more specific at lower levels

»network of goals creates a *means-ends* chain

–subgoals constrain subordinates' behavior

»assumes that top managers know what is best for the organization

Traditional Objective Setting

How Do Managers Plan? (cont.)

Establishing Goals (cont.)

–***Approaches to Establishing Goals*** (cont.)

•***management by objectives (MBO)*** - specific performance goals are jointly determined by employees and their managers

–progress toward accomplishing these goals is periodically reviewed

–rewards are allocated on the basis of this progress

–MBO consists of four elements

»goal specificity

»participative decision making

»explicit time period

»performance feedback

Steps in a Typical MBO Program

How Do Managers Plan? (cont.)

Establishing Goals (cont.)

–***Approaches to Establishing Goals*** (cont.)

•***management by objectives*** (cont.)

–increases employee performance and organizational productivity

»depends on support of top managers for MBO

–problems with MBO

»can be useless in times of dynamic change

»overemphasis on personal rather than organizational goals

»may be viewed simply as an annual exercise in paperwork

How Do Managers Plan? (cont.)

Establishing Goals (cont.)

–***Characteristics of Well-Designed Goals***

•should be written in terms of outcomes

•should be measurable and quantifiable

•should be clear as to a time frame

•should be challenging but attainable

•should be written down

•should be communicated to all organization members who need to know the goals

How Do Managers Plan? (cont.)

Establishing Goals (cont.)

–***Steps in Goal Setting***

•1 - Review the organization's mission

•2 - Evaluate available resources

- 3 - Determine the goals individually or with input from others
—should be congruent with the organizational mission and goals in other organizational areas

- 4 - Write down the goals and communicate them to all who need to know them

- 5 - Review results and whether goals are being met

How Do Managers Plan? (cont.)

Developing Plans

—***Contingency Factors in Planning***

- level in the organization

- operational planning dominates managers' planning efforts at lower levels

- strategic planning more characteristic of planning at higher levels

Planning In The Hierarchy Of Organizations

How Do Managers Plan? (cont.)

Developing Plans (cont.)

—***Contingency Factors in Planning (cont.)***

- degree of environmental uncertainty

- when uncertainty is high, plans should be specific, but flexible

- length of future commitments

- commitment concept*** - plans should extend far enough to meet those commitments made when the plans were developed

- »the more that current plans affect future commitments, the longer the time frame for which managers should plan

How Do Managers Plan? (cont.)

Developing Plans (cont.)

—***Approaches to Planning***

- traditional, top-down approach

- planning done by top managers

- formal planning department*** - specialists whose sole responsibility is to help to write organizational plans

- plans flowed down to lower levels

- »tailored to particular needs at each lower level

- most effective if plan is a workable document used by organizational members for direction and guidance

How Do Managers Plan? (cont.)

Developing Plans (cont.)

—***Approaches to Planning (cont.)***

- inclusive approach

- employees at each level develop plans suited to their needs

- employees acquire greater sense of the importance of planning when they participate in the process

- plans more likely to be used in directing and coordinating work

Contemporary Issues In Planning

Criticisms of Planning

–1. *Planning may create rigidity*

- unwise to force a course of action when the environment is fluid

–2. *Plans can't be developed for a dynamic environment*

- flexibility required in a dynamic environment
- can't be tied to a formal plan

–3. *Formal plans can't replace intuition and creativity*

- mechanical analysis reduces the vision to some type of programmed routine

Contemporary Issues In Planning (cont.)

Criticisms of Planning (cont.)

–4. *Planning focuses managers' attention on today's competition, not on tomorrow's survival*

- plans concentrate on capitalizing on existing business opportunities
- hinders managers who consider creating or reinventing an industry

–5. *Formal planning reinforces success, which may lead to failure*

- success may breed failure in an uncertain environment

Contemporary Issues In Planning (cont.)

Effective Planning in Dynamic Environments

–develop plans that are specific, but flexible

–recognize that planning is an ongoing process

–change directions if environmental conditions warrant

–stay alert to environmental changes

Chapter 8

The Importance Of Strategic Management

What Is Strategic Management?

–A set of managerial decisions and actions that determines the long-run performance of an organization

Purposes of Strategic Management

–involved in many decisions that managers make

–companies with formal strategic management systems have higher financial returns than companies with no such system

–important in profit and not-for-profit organizations

The Strategic Management Process

The Strategic Management Process

1. Identifying the Organization's Current Mission, Objectives, and Strategies

–*mission* - statement of the purpose of an organization

- important in profit and not-for-profit organizations

- important to identify the goals currently in place and the strategies currently being pursued

Components of a Mission Statement

The Strategic Management Process (cont.)

2. Analyzing the Environment

—successful strategies are aligned with the environment

—examine both the specific and general environments to determine what trends and changes are occurring

3. Identifying Opportunities and Threats

—**opportunities** - positive trends in the external environment

—**threats** - negative trends in the external environment

The Strategic Management Process (cont.)

4. Analyzing the Organization's Resources and Capabilities

—examine the inside of the organization

—available resources and capabilities always constrain the organization in some way

—core competence - a unique and exceptional capability or resource

•the organization's major value-creating, competitive weapon

The Strategic Management Process (cont.)

5. Identifying Strengths and Weaknesses

—**strengths** - activities the organization does well or any unique resource

—**weaknesses** - activities the organization does not do well or resources it needs but does not possess

—organization's culture has its strengths and weaknesses

•strong culture - new employees easily identify the organization's core competencies

—may serve as a barrier to accepting change

•influence managers' preferences for certain strategies

—**SWOT analysis** - analysis of the organization's strengths, weaknesses, opportunities, and threats

Identifying the Organization's Opportunities

The Strategic Management Process (cont.)

6. Formulating Strategies

—require strategies at the corporate, business, and functional levels of the organization

—strategy formulation follows the decision-making process

7. Implementing Strategies

—a strategy is only as good as its implementation

8. Evaluating Results

—control process to determine the effectiveness of a strategy

Levels of Organizational Strategy

Types Of Organizational Strategies

Corporate-Level Strategy

—determines

•what businesses a company should be in or wants to be in

•the direction that the organization is going

•the role that each business unit will play

–**Grand Strategy - Stability**

- no significant change is proposed
- organization’s performance is satisfactory
- environment appears to be stable and unchanging
- few organizations today pursue this strategy

Types Of Organizational Strategies (cont.)

Corporate-Level Strategy (cont.)

–**Grand Strategy - Growth**

- seeks to increase the level of the organization’s operations
- concentration** - growth through direct expansion of organization’s own business operations

•**vertical integration**

–**backward** - become your own supplier

–**forward** - become your own distributor

- horizontal integration** - grow by combining with other organizations in the same industry

–needs approval by U.S. Federal Trade Commission

Types Of Organizational Strategies (cont.)

Corporate-Level Strategy (cont.)

–**Grand Strategy - Growth** (cont.)

- related diversification** - grow by merging with or acquiring firms in different, but related, industries

–“strategic fit”

- unrelated diversification** - grow by merging with or acquiring firms in different and unrelated industries

Types Of Organizational Strategies (cont.)

Corporate-Level Strategy (cont.)

–**Grand Strategy - Growth** (cont.)

- retrenchment** - designed to address organizational weaknesses that are leading to performance declines

–intended to:

- »stabilize operations
- »revitalize organizational resources and capabilities
- »prepare to compete once again

SWOT Analysis And Grand Strategies

Types of Organizational Strategies (cont.)

Corporate-Level Strategy (cont.)

–**Corporate Portfolio Analysis** - used when corporate strategy involves a number of business

- Boston Consulting Group (BCG) matrix** - provides a framework for understanding diverse businesses

–helps managers establish priorities for making resource allocation decisions

–businesses classified in terms of

»market share

»anticipated market growth

The BCG Matrix

Types of Organizational Strategies (cont.)

Corporate-Level Strategy (cont.)

–**BCG matrix** (cont.)

•strategic implications of the matrix

–**cash cows** - “milk”

»use cash to invest in stars and question marks

–**stars** - require heavy investment

»eventually will become cash cows

–**question marks** - two strategies

»invest to transform them into stars

»divest

–**dogs** - sold off or liquidated

Types Of Organizational Strategies (cont.)

Business-Level Strategy

–determines how an organization should compete in each of its businesses

–**strategic business units** - independent businesses that formulate their own strategies

–**Role of Competitive Advantage**

•**competitive advantage** - sets an organization apart by providing a distinct edge

–comes from the organization’s core competencies

–not every organization can transform core competencies into a competitive advantage

–once created, must be able to sustain it

Types Of Organizational Strategies (cont.)

Business-Level Strategy (cont.)

–**Competitive Strategies**

•**Michael Porter** - industry analysis based on five competitive forces

–**Threat of new entrants** - affected by barriers to entry

–**Threat of substitutes** - affected by buyer loyalty and switching costs

–**Bargaining power of buyers** - affected by number of customers, availability of substitute products

Types Of Organizational Strategies (cont.)

Business-Level Strategy (cont.)

–**Competitive Strategies** (cont.)

•Porter’s competitive forces analysis (cont.)

–**Bargaining power of suppliers** - affected by degree of supplier concentration

–**Existing rivalry** - affected by industry growth rate, demand for firm’s product or service, and product differences

Forces In The Industry Analysis

Types of Organizational Strategies (cont.)

Business-Level Strategy (cont.)

—*Competitive strategies* (cont.)

•Porter's three generic strategies

—*cost leadership* - goal is to become the lowest-cost producer in the industry

»tries to identify efficiencies in all operations

»overhead kept to a minimum

»product or service must be perceived to be of comparable quality to that offered by competitors

Types of Organizational Strategies (cont.)

Business-Level Strategy (cont.)

—*Competitive strategies* (cont.)

•Porter's three generic strategies (cont.)

—*differentiation* - offer unique products that are widely valued by customers

»sets the firm apart from competitors

»differentiation based on quality, service, product design, brand image

»customers must be willing to pay a price premium that exceeds the cost of differentiation

Types of Organizational Strategies (cont.)

Business-Level Strategy (cont.)

—*Competitive strategies* (cont.)

•Porter's three generic strategies (cont.)

—*focus* - aims at a cost advantage or differentiation advantage in a narrow segment

»no attempt to serve the broad market

»feasibility of strategy depends on the size of the segment and the ability of the firm to support the cost of focusing

Requirements for Successfully Pursuing Porter's Competitive Strategies

Types Of Organizational Strategies (cont.)

Functional-Level Strategy (cont.)

—used to support the business-level strategy

—creates an appropriate supporting role for each functional area of the organization

•e.g., manufacturing, marketing, human resources

Chapter 9

Techniques For Assessing The Environment

Environmental Scanning

—the screening of information to anticipate and interpret changes in the environment

—*competitor intelligence* - gathering information about one's competitors

- a variety of sources of information is easily accessible
- reverse engineering** - analyze a competitor's product
- becomes illegal corporate spying when proprietary materials or trade secrets are stolen
- fine line between what is **legal and ethical** and what is **legal but unethical**
- Assessing The Environment (cont.)
- Environmental Scanning (cont.)
- global scanning** - screening of information on global forces that might affect an organization that has global interests
- requires more extensive procedures than those used for scanning the domestic environment
- Assessing The Environment (cont.)
- Forecasting
- used to predict future events to facilitate decision making
- Techniques**
- **quantitative** - applies a set of mathematical rules to a series of past data to predict outcomes
- **qualitative** - uses the judgment and opinions of knowledgeable individuals to predict outcomes
- **collaborative forecasting and replenishment (CFAR)**
- standardized way for businesses to use the Internet to exchange data
- information used to calculate a demand forecast for a particular product
- Forecasting Techniques
- Assessing The Environment (cont.)
- Forecasting (cont.)
- Effectiveness** - managers have had mixed success
- forecasts are most accurate in relatively stable environments
- forecasts are relatively ineffective in predicting nonseasonal events, unusual occurrences, and the actions of competitors
- to improve forecasts - use simple forecasting methods
- compare every forecast with “no change”
- use several forecasting methods
- shorten the length of forecasts
- practice forecasting
- Assessing The Environment (cont.)
- Benchmarking
- the search for the best practices in other organizations that lead to superior performance
- standard tool of many organizations in quest for performance improvement
- analyze and then copy the methods used by leaders in various fields
- important to identify appropriate targets for benchmarking
- organizations may share benchmarking information
- Steps In Benchmarking
- Suggestions for Improving Benchmark Efforts
- Techniques For Allocating Resources

Resources

—the assets of the organization

—take many forms, including financial, physical, human, intangible, and structural

Budgeting

—budgets - numerical plans for allocating resources to specific activities

- are prepared for revenues, expenses, and large capital expenditures
- are applicable to a wide variety of organizations and activities
- force financial discipline

Suggestions for Improving Budgeting

Suggestions For Improving Budgeting

Techniques For Allocating Resources (cont.)

Scheduling

—detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed

—**Gantt Charts** - show when tasks are supposed to be done

- allow comparison with the actual progress on each task
- serve as a control tool
- a bar graph with time on the horizontal axis and the activities to be scheduled on the vertical axis
- shading represents actual progress

A Gantt Chart

Techniques For Allocating Resources (cont.)

Scheduling (cont.)

—**Load Charts** - modified Gantt Chart

- schedule capacity by work areas
- vertical axis lists either entire departments or specific resources
- allow managers to plan and control capacity utilization

A Load Chart

Techniques For Allocating Resources (cont.)

Scheduling (cont.)

—**Program Evaluation and Review Technique (PERT) Network Analysis**

- used to schedule complex projects
- flowchartlike diagram that depicts the sequence of activities needed to complete a project
- indicates the time or costs associated with each activity
- can compare the effects alternative actions might have on scheduling and costs

Techniques For Allocating Resources (cont.)

Scheduling (cont.)

—**PERT** (cont.) - nomenclature

- events** - end points that represent the completion of major activities
- activities** - time or resources required to progress from one event to another

• **slack time** - amount of time an activity can be delayed without delaying the entire project

• **critical path** - the most time-consuming sequence of events and activities in a PERT network

—delays on critical path will delay completion of the entire project (zero slack time)

Steps in Developing a PERT Network

A PERT Network for Constructing an Office Building

A PERT Network For Constructing An Office Building

Techniques For Allocating Resources (cont.)

Scheduling (cont.)

—**Breakeven Analysis** - used to determine how many units must be sold to have neither profit nor loss

• used to make profit projections

• points out relationships between revenues, costs, and profits

—**breakeven point** - total revenue is just enough to equal total costs

Techniques For Allocating Resources (cont.)

Scheduling (cont.)

—**Breakeven Analysis** (cont.) - nomenclature

• **P** - unit price of product

• **VC** - variable cost per unit

• **TFC** - total fixed costs

• **Fixed costs** - costs that do not change as volume increases

• **Variable costs** - costs that change in proportion to output

Breakeven Analysis

Techniques For Allocating Resources (cont.)

Scheduling (cont.)

—**Linear Programming**

• requirements

—resources are limited

—outcome optimization is the goal

—alternative methods exist for combining resources to produce a number of output mixes

—a linear relationship exists between variables

• technique has a variety of applications

Techniques For Allocating Resources (cont.)

Scheduling (cont.)

—**Linear Programming** (cont.) - nomenclature

• **objective function** - a mathematical equation that predicts the outcome of all proposed alternatives

• production capacity of departments involved in producing the outputs

—acts as a constraint on overall capacity

—constraints define the feasibility region

•**feasibility region** - defines the optimal resource allocation

Production Data for Cinnamon Scented Products

Graphical Solution To Linear Programming Problem

Contemporary Planning Techniques

Project Management

—the task of getting a project's activities done on time, within budget, and according to specifications

•**project** - a one-time-only set of activities that has a definite beginning and ending point in time

—standardized planning procedures often are not appropriate for projects

—**Project Management Process**

•team created from appropriate work areas

•team reports to a project manager

•project manager coordinates activities

•team disbands when project is completed

Project Management Process

Contemporary Planning Techniques (cont.)

Project Management (cont.)

—**Role of the Project Manager**

•role is affected by the one-shot nature of the project

•role is difficult because team members still linked to their permanent work areas

—members may be assigned to several projects simultaneously

•managers must rely on their communication skills and powers of persuasion

Contemporary Planning Techniques (cont.)

Scenario Planning

—**scenario** - a consistent view of what the future is likely to be

—contingency planning - developing scenarios

•if this is what happens, then these are the actions we need to take

—intent is to reduce uncertainty by playing out potential situations under different specified conditions

Preparing for Unexpected Events

Chapter 10

Defining Organizational Structure

Nomenclature

—**organizing** - the process of creating an organization's structure

—**organizational structure** - the formal framework by which job tasks are divided, grouped, and coordinated

—**organizational design** - process of developing or changing an organization's structure

- process involves six key elements

Defining Organizational Structure (cont.)

Work Specialization

—the degree to which tasks in an organization are divided into separate jobs

- individuals specialize in doing part of an activity rather than the entire activity

—too much specialization has created human diseconomies

—an important organizing mechanism, though not a source of ever-increasing productivity

Defining Organizational Structure (cont.)

Departmentalization

—the basis by which jobs are grouped together

- functional** - groups jobs by functions performed

- product** - groups jobs by product line

- geographical** - groups jobs on the basis of territory or geography

- process** - groups jobs on the basis of product or customer flow

- customer** - groups jobs on the basis of common customers

Defining Organization Structure (cont.)

Departmentalization (cont.)

—large organizations combine most or all forms of departmentalization

—trends

- customer departmentalization is increasingly being used

—better able to monitor and respond to customer needs

—cross-functional teams are becoming popular

»groups of individuals who are experts in various specialties

»involved in all aspects of bringing a new product to market

Functional Departmentalization

Product Departmentalization

Geographical Departmentalization

Process Departmentalization

Customer Departmentalization

Defining Organization Structure (cont.)

Chain of Command (cont.)

—continuous line of authority that extends from upper organizational levels to the lowest levels and clarifies who reports to whom

- authority** - the rights inherent in a managerial position to tell people what to do and to expect them to do it

- responsibility** - the obligation to perform any assigned duties

- unity of command** - a person should report to only one manager

—these concepts are less relevant today due to information technology and employee empowerment

Defining Organization Structure (cont.)

Span of Control

–number of employees that a manager can efficiently and effectively manage

–determines the number of levels and managers in an organization

–the wider the span, the more efficient the organization

–appropriate span influenced by:

- the skills and abilities of employees
- the complexity of tasks performed
- availability of standardized procedures
- sophistication of organization's information system

Contrasting Spans Of Control

Defining Organization Structure (cont.)

Centralization

–the degree to which decision making is concentrated at a single point in the organization

- top-level managers make decisions with little input from subordinates in a centralized organization

Decentralization

–the degree to which decisions are made by lower-level employees

–distinct trend toward decentralized decision making

Factors That Influence the Amount of Centralization and Decentralization

Defining Organization Structure (cont.)

Formalization

–the degree to which jobs within the organization are standardized

- standardization - removes the need for employees to consider alternatives
- extent to which employee behavior is guided by rules and procedures
- employee allowed minimal discretion in highly formalized jobs

–explicit job descriptions

–clearly defined procedures

Organizational Design Decisions

Mechanistic Organization

–rigidly and tightly controlled structure

–tries to minimize the impact of differing human traits

–most large organizations have some mechanistic characteristics

Organic Organization

–highly adaptive and flexible structure

–permits organization to change when the need arises

–employees are highly trained and empowered to handle diverse job activities

–minimal formal rules and little direct supervision

Mechanistic Versus Organic Organization

Organizational Design Decisions (cont.)

Contingency Factors

–**Strategy and Structure** - structure should facilitate the achievement of goals

- strategy and structure should be closely linked
- strategy focuses on:

- innovation** - need the flexibility and free flow of information of the organic structure
- cost minimization** - seek efficiency, stability, and tight controls of mechanistic structure
- imitation** - use structural characteristics of both mechanistic and organic structures

Organizational Design Decisions (cont.)

Contingency Factors (cont.)

- Size and Structure** - size affects structure at a decreasing rate

–**Technology and Structure**

- technology** - converts inputs into outputs
- unit production** - production of items in units or small batches
- mass production** - large-batch manufacturing
- process production** - continuous-process production

- mechanistic structure supports routine technology

- organic structure supports nonroutine technology

Woodward's Findings On Technology, Structure, And Effectiveness

Organizational Design Decisions (cont.)

Contingency Factors (cont.)

–**Environmental Uncertainty and Structure**

- one way to reduce environmental uncertainty is to adjust the organization's structure
- with greater stability, mechanistic structures are more effective
- »mechanistic structures are not equipped to respond to rapid environmental change
- the greater the uncertainty, the greater the need for an organic structure
- »organizations are being designed to be more organic nowadays

Common Organizational Designs

Traditional Organizational Designs

- Simple Structure** - low departmentalization, wide spans of control, authority centralized in a single person, and little formalization

- commonly used by small businesses

- as organizations increase in size, the structure tends to become more specialized and formalized

–**Functional Structure** - groups similar or related occupational specialties together

Common Organizational Designs (cont.)

Traditional Organizational Designs (cont.)

–**Divisional Structure** - composed of separate divisions

- each division has relatively limited autonomy

- parent corporation acts as an external overseer to coordinate and control the divisions

–provides support services

Strengths and Weakness of Common Traditional Organizational Designs

Common Organizational Designs

Contemporary Organizational Designs

–**Team-Based Structures** - entire organization is made up of work teams

- employee empowerment is crucial

- teams responsible for all work activity and performance
- complements functional or divisional structures in large organizations
- allows efficiency of a bureaucracy
- provides flexibility of teams
- Common Organizational Designs (cont.)
- Contemporary Organizational Designs (cont.)
- Matrix Structure** - assigns specialists from different functional departments to work on projects led by project managers
- adds vertical dimension to the traditional horizontal functional departments
- creates a **dual chain of command**
- violates unity of command
- project managers have authority in areas relative to the project's goals
- functional managers retain authority over human resource decisions (e.g., promotions)
- A Matrix Organization in an Aerospace Firm
- Common Organizational Designs (cont.)
- Contemporary Organizational Designs (cont.)
- Project Structure** - employees work continuously on projects
- employees do not return to a functional department at the conclusion of a project
- all work performed by teams comprised of employees with appropriate skills and abilities
- tends to be very fluid and flexible
- no rigid departmentalization or organization hierarchy
- managers serve as facilitators and mentors
- Common Organizational Designs (cont.)
- Contemporary Organizational Designs (cont.)
- Autonomous Internal Units** – independent, decentralized business units
- each has its own products, clients, competitors, and profit goals
- business units are autonomous
- there is no centralized control or resource allocation
- Common Organizational Designs (cont.)
- Contemporary Organizational Designs (cont.)
- Boundaryless Organization** - design is not defined by, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure
- strategic alliances break down barriers between the company and its customers and suppliers
- seeks to eliminate the chain of command, to have limitless spans of control, and to replace departments with empowered teams
- flattens the hierarchy by removing vertical boundaries
- horizontal boundaries removed by organizing work around processes instead of functional departments
- Common Organizational Designs (cont.)

Contemporary Organizational Designs (cont.)

–**Learning Organization** - an organizational mind-set rather than a specific organizational design

- has developed the capacity to continuously adapt
- all members take an active role in identifying and resolving work-related issues
- practice knowledge management by continually acquiring and sharing new knowledge
- environment is conducive to open communication
- empowered teams are important
- leadership creates a shared vision for the future
- organizational culture provides sense of community

Characteristics Of A Learning Organization