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Richard L. Daft

ORGANIZATION
THEORY & DESIGN

Thirteenth
Edition

Richard L. Daft

Vanderbilt University

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Preface

My vision for the Thirteenth Edition of *Organization Theory and Design* is to integrate current organization design problems with significant ideas and theories in a way that is engaging and enjoyable for students. The biggest changes in the world of organizations are the emergence of large digital, platform-based organizations and the increasing focus in corporate America on the issues of social welfare and sustainability. A new chapter in this edition gives students the chance to learn about the design of dual-purpose organizations that combine profit-seeking and social welfare goals to provide self-sustaining social benefits to society. In addition, the chapter covering information technology has been completely revised to look at the exciting development of new platform-based digital organizations, including companies such as Uber, Airbnb, Facebook, and YouTube, and the increasing digitalization of traditional organizations. An important change to the Thirteenth Edition is a "Remember This" section at the end of each major section in a chapter that reviews the key ideas and concepts covered in that section. Other significant elements of this edition include "Managing by Design Questions" and "How Do You Fit the Design?" boxes, along with updates to every chapter that incorporate the most recent ideas, new case examples, new book reviews, and new end-of-book integrative cases. The research and theories in the field of organization studies are rich and insightful and will help students and managers understand their organizational world and solve real-life problems. My mission is to combine the concepts and models from organization theory with changing events in the real world to provide the most up-to-date view of organization design available.

Distinguishing Features of the Thirteenth Edition

Many students in a typical organization theory course do not have extensive work experience, especially at the middle and upper levels, where organization theory is most applicable. Moreover, word from the field is that many students today often do not read lengthy chapter opening examples or boxed examples, preferring instead to focus on chapter content. To engage students in the world of organizations, the Thirteenth Edition uses "Managing by Design Questions" at the start of each chapter. These questions immediately engage students in thinking and expressing their beliefs and opinions about organization design concepts. Another in-chapter feature, "How Do You Fit the Design?" engages students in how their personal style and approach will fit into an organization. Other experiential activities that engage students in applying chapter concepts include new "BookMarks," new "In Practice" examples, new end-of-chapter cases, and new integrative cases for student analysis. The total set of features substantially expands and improves the book's content and accessibility. These multiple pedagogical devices are used to enhance student involvement in text materials.

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New Chapters. Two chapters in the Thirteenth Edition contain virtually all new material. Chapter 7 introduces students to the design of a new organizational form called a dual-purpose or hybrid organization that combines profit-seeking and social welfare goals to provide self-sustaining social benefits to society. Chapter 7 also discusses the design issues associated with an increasing corporate focus on corporate social responsibility and sustainability. In addition, Chapter 9 (Chapter 8 in the previous edition) has been completely revised to explain the emerging platform-based organization form, including companies such as Facebook, YouTube, Uber, and Airbnb, and the increasing digitalization of traditional industrial organizations, such as GE and Siemens.

How Do You Fit the Design? The "How Do You Fit the Design?" feature presents a short questionnaire in each chapter about the student's own style and preferences, to quickly provide feedback about how they fit particular organizations or situations. For example, questionnaire topics include "What Is Your Cultural Intelligence?" "Your Strategy Strength," "How Sustainable Are You?" "Are You Ready to Fill an International Role?" "How Will You Handle Decentralization and Autonomy?" "Corporate Culture Preference," "Making Important Decisions," and "Personal Networking." These short feedback questionnaires connect the student's personal preferences to chapter material to heighten interest and show the relevance of chapter concepts.

Managing by Design Questions. Each chapter opens with three short opinion questions that engage students in clarifying their thoughts about upcoming material and concepts. These questions are based on the idea that when students express their opinions first, they are more open to and interested in receiving material that is relevant to the questions. Example questions, which ask students to agree or disagree, include:

A certain amount of conflict is good for an organization.
The best measures of business performance are financial.
Artificial intelligence is objective and bias-free compared to human decision making in organizations.
Platform-based organizations are a new form of organization, but the fundamental assumptions are the same as for a traditional industrial organization.
A CEO's top priority is to make sure the organization is designed correctly.
Managers should use the most objective, rational process possible when making a decision.

As a follow-up to the three "Managing by Design" questions, each chapter contains three "Assess Your Answer" inserts that allow students to compare their original opinions with the "correct" or most appropriate answers based on chapter concepts. Students learn whether their mental models and beliefs about organizations align with the world of organizations.

Opening Examples. Following the Managing by Design questions, each chapter's text begins with a brief, interesting example, often involving a problem or a sticky situation, that gets students thinking about how the chapter topics apply in the real world of organizations. Chapter 1 begins with a longer opening case about GE's successes and difficulties and the relevance of each chapter's content to GE's

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issues. Nine of the 14 chapters are introduced by new real-life examples, including Waymo's self-driving cars, the U.S. Marine Corps Rifle Squads, Patagonia, and the Coca-Cola Company.

BookMarks. "BookMarks" are short book reviews that reflect current issues of concern for managers working in real-life organizations. These reviews, which represent a unique feature of this text, describe the varied ways companies are dealing with the challenges of today's changing environment. New "BookMarks" in the Thirteenth Edition include *The Vanishing American Corporation: Navigating the Hazards of a New Economy*, *Meltdown: Why Our Systems Fail and What We Can Do About It*, *The Conversational Firm: Rethinking Bureaucracy in the Age of Social Media*, *Astroball: The New Way to Win It All*, *Blue Ocean Shift: Beyond Competing*, and *Rule Makers, Rule Breakers: How Tight and Loose Cultures Wire Our World*.

In Practice. This edition contains many new "In Practice" examples that illustrate theoretical concepts in organizational settings. Many examples are international, and all are based on real organizations. There are 38 new "In Practice" cases used within chapters, including Uber and Didi Chuxing, Grameen Veolia Water, Warner Media, LVMH Moët Hennessy Louis Vuitton, the Los Angeles Rams, Google and Alphabet, Netflix, Panera Bread Company, Inditex S.A.'s Zara, BAE Systems, Twitter, Volkswagen, Siemens Gamesa, Wells Fargo, Morgan Stanley, Huawei, and the National Rifle Association. "In Practice" examples that have been retained from the previous edition with substantial updating include Amazon Versus Walmart, Carnival Cruise Lines, Omnicom and Publicis, Taco Bell, Allegiant Air, and Apple and Samsung.

Manager's Briefcase. Located in the chapter margins, this feature tells students how to use concepts to analyze cases and manage organizations.

Text Exhibits. Frequent exhibits are used to help students visualize organizational relationships, and the artwork has been designed to clearly communicate chapter concepts.

Remember This. At the end of each major section of a chapter is a "Remember This" bullet-point summary of the key ideas and concepts discussed in that section. The "Remember This" feature gives students a convenient way to review the essential points covered in each major section of the chapter.

Case for Analysis. These cases are tailored to chapter concepts and provide a vehicle for student analysis and discussion. New cases for analysis include "Solo Eyewear," "Craft Originalities Inc.," "Hermitage Escalator Company," "Fiedler, Philips & Wilson Design," and "Digitalization in the Manufacturing Sector: Skills in Transition."

Integrative Cases. The integrative cases at the end of the text have been expanded and positioned to encourage student discussion and involvement. The new cases include *The New York Times* Versus Amazon, Lampang: Overcoming Community Resistance to a Sustainability Project, Walmart's Failures in Entering

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Three Developed Markets, and ToolTopia.com. Previous cases that have been substantially revised and updated include Cisco Systems: Evolution of Structure, Costco: Join the Club, and IKEA: Scandinavian Style.

New Concepts

The Thirteenth Edition contains an exceptional amount of new content. A new chapter looks at *dual-purpose organizations* that combine profit-seeking and social welfare goals, outlining designs for managing *mission drift* and the inherent goal conflict in these companies. This chapter also includes a significant consideration of designs for corporate sustainability and corporate social responsibility, including CSR, ESG, the triple bottom line, conscious capitalism, and the bottom of the pyramid concept. The chapter dealing with information technology has been completely revised to include new *platform-based digital organization designs*, the impact of *artificial intelligence* on organization design and management systems, and the trend toward *digitalization* of all organizations.

Other concepts that have been added or expanded in the Thirteenth Edition include the *Internet of Things* and its impact on big data analytics, a new form of control over employees called *algorithmic control*, the use of *nudge management* for influencing employees, the trend toward *bossless organization designs* and a new design called the *holacracy team structure*, new material on overly complex technologies and *high reliability organizations*, *cultural intelligence*, *reverse innovation*, the trend toward *glocalization*, decision fallacies and *cognitive biases*, designing a *high-performance culture*, *SWOT analysis*, *scenario planning*, and *hard versus soft power*.

Chapter Organization

Each chapter is highly focused and is organized into a logical framework. Many organization theory textbooks treat material in sequential fashion, such as "Here's View A, Here's View B, Here's View C," and so on. *Organization Theory and Design* shows how they apply in organizations. Moreover, each chapter sticks to the essential point. Students are not introduced to extraneous material or confusing methodological squabbles that occur among organizational researchers. The body of research in most areas points to a major trend, which is reported here. Several chapters develop a framework that organizes major ideas into an overall scheme.

This book has been extensively tested on students. Feedback from students and faculty members has been used in the revision. The combination of organization theory concepts, book reviews, examples of leading organizations, self-insight questionnaires, case illustrations, experiential exercises, and other teaching devices is designed to meet student learning needs, and students have responded favorably.

Supplements

Instructor Companion Website. Access important teaching resources on the companion website. For your convenience, you can download electronic versions of the instructor supplements at the password-protected section of the site, including the Instructor's Manual, Test Bank, and PowerPoint presentations.

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To access these additional course materials and companion resources, please visit www.cengagebrain.com. At the CengageBrain.com home page, search for the ISBN of your title (from the back cover of your book) using the search box at the top of the page. This will take you to the product page where free companion resources can be found.

Instructor's Manual. The Instructor's Manual contains chapter overviews, chapter outlines, lecture enhancements, discussion questions, discussion of activities, discussion of chapter cases, and case notes for integrative cases.

Cognero Test Bank. The Cognero Test Bank contains easy-to-use test creation software. Instructors can add or edit questions, instructions, and answers and can select questions (randomly or numerically) by previewing them on the screen. Instructors can also create and administer quizzes online.

PowerPoint Lecture Presentation. The PowerPoint Lecture Presentation enables instructors to customize their own multimedia classroom presentations. Prepared in conjunction with the text and instructor's resource guide, the package contains approximately 150 slides. It includes exhibits from the text as well as outside materials to supplement chapter concepts. Material is organized by chapter and can be modified or expanded for individual classroom use.

Acknowledgments

Textbook writing is a team enterprise. The Thirteenth Edition has integrated ideas and hard work from many people to whom I am grateful. Reviewers and focus group participants made an especially important contribution. They praised many features, were critical of things that didn't work well, and offered valuable suggestions.

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Edition to continue its high level of excellence. I also thank DeeGee Lester for her work drafting new end-of-chapter and integrative cases. DeeGee's creative writing skills brought to life key organizational issues that students will enjoy discussing and solving.

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Richard L. Daft
Nashville, Tennessee
July 2019

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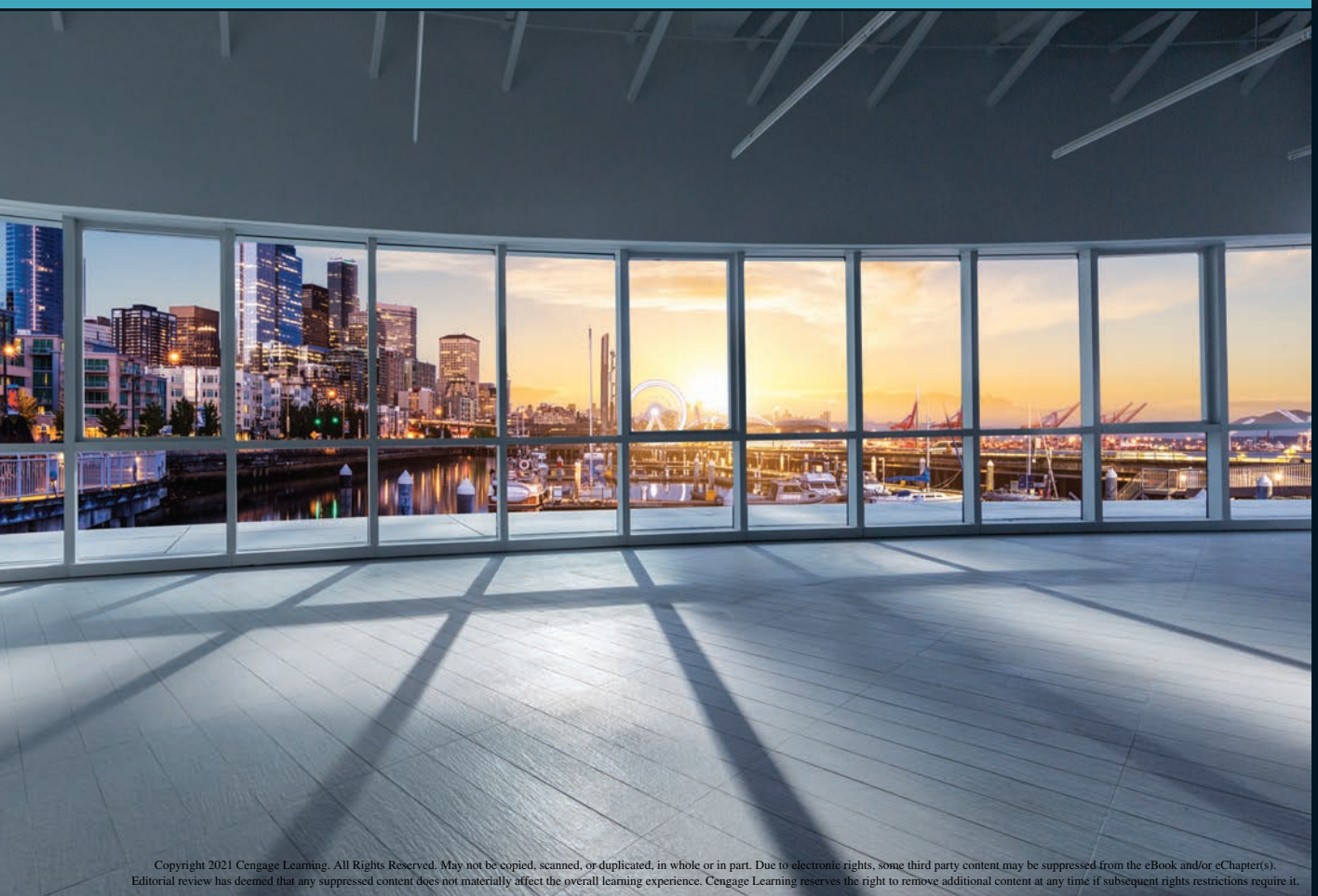
PART 1

Introduction to Organizations

Chapter 1 Organizations and Organization Design



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CHAPTER

1 Organizations and Organization Design

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Learning Objectives

After reading this chapter you should be able to:

1. Discuss current challenges that organizations face.
2. Describe the importance of organizations in society.
3. Describe how the structural dimensions of organizations are shaped by contingencies organizations face.
4. Outline the evolution of organizational design.
5. Compare and contrast organic and mechanistic organization designs, including the contingency factors typically associated with each.
6. Explain the current trend toward bossless organization design.

Chapter Outline

A Look Inside General Electric

The Jack Welch Era 1981–2001 · The Jeff Immelt Era 2001–2017 · Events Since 2017

Organization Design in Action

Topics · Purpose of This Chapter · Current Challenges

What Is an Organization?

Definition · From Multinationals to Nonprofits · Importance of Organizations

Dimensions of Organization Design

Structural Dimensions · Contingency Factors · Performance and Effectiveness Outcomes

The Evolution of Organization Design

Historical Perspectives · It All Depends: Key Contingencies

The Contrast of Organic and Mechanistic Designs

The Emerging Bossless Design Trend

Framework for the Book

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

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

MANAGING BY DESIGN QUESTIONS

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

I AGREE _____ I DISAGREE _____

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

I AGREE _____ I DISAGREE _____

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

I AGREE _____ I DISAGREE _____

1.1 A Look Inside General Electric

General Electric (GE) has a glorious heritage. Founded by Thomas Edison in 1878 to generate and distribute electric power, GE became a world leader as a diversified industrial company. For decades, GE had a reputation for excellent and innovative management practices that other companies copied. As a model industrial company, General Electric's stock had been part of the Dow Jones Industrial Average since 1907.

Since the late 1800s, GE moved in and out of multiple businesses as a key part of its strategy and success. In 2019, GE was still a diversified worldwide conglomerate. Its industrial businesses included the power segment (gas and steam power systems), renewable energy (wind turbines), oil and gas (drilling systems), aviation (jet engines), healthcare (MRI machines), transportation (locomotives), and capital (loans to buy equipment).

However, by 2019 GE's value had fallen precipitously from its earlier prosperity, hitting a low of about 10 percent of its former value. How could a company that rose to fame as the best managed company in the world fall on such hard times? The answer to GE's ups and downs lies partly with how its leaders used organization design.

Reginald Jones was CEO from 1972 to 1981 and helped build GE's sophisticated strategic planning system. The GE conglomerate was composed of 43 autonomous businesses, within which it had 10 groups, 46 divisions, and 190 departments that participated in strategic planning. To help manage the massive amounts of paperwork and information required from 43 strategic plans, GE added a management layer to its structure to oversee sectors or groupings of businesses and reduce the load on top management. GE was a respected and highly successful company, and paperwork and bureaucracy seemed to increase along with organization size and complexity.

1.1a The Jack Welch Era 1981–2001

When he was hired as an engineer at GE in the early 1960s, Jack Welch hated the company's bureaucracy so much that he submitted his resignation after only six months on the job. Fortunately for GE, Welch's boss convinced him to stay and

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make a difference. After rising to CEO, Welch was quick to begin busting the ever-growing GE bureaucracy. Near the end of his two-decade run as CEO, in 2001, *Fortune* magazine named Welch "Manager of the Century" to recognize his astonishing record at GE and also named GE the "Most Admired Company in the United States." What changes did Welch and GE managers make to achieve these accolades?

Strategy Changes. GE had begun using the advertising slogan "We bring good things to life" in the late 1970s and it continued in the Welch era, with Welch maintaining the strategy of being a conglomerate of diverse businesses. But Welch added a new key objective: each business must become the No. 1 or No. 2 competitor in its industry or risk being cut. GE's new strategy was to be a leader in each of its industries.

Changes in Structure. Welch attacked the bureaucratic layers within GE by first eliminating the sector level of management hierarchy that Reginald Jones created. He continued to fight the over-managed hierarchy until the number of levels was reduced from nine to as few as four. In many cases, department managers, subsector managers, unit managers, and sometimes supervisors were eliminated along with the sector managers. Now the CEO and top managers could deal directly with each business without going through multiple layers of hierarchy. Moreover, Welch stretched senior managers' span of control to 15 or more direct reports to force more delegation and autonomy downward.

Downsizing. Welch's assault on the bureaucracy also involved cutting down the number of employees. GE eliminated tens of thousands of managers and employees through delayering and de-staffing and even more through divestitures. The number of GE employees declined from about 404,000 in 1982 to 292,000 by 1989. Welch was given the nickname "Neutron Jack" because a neutron bomb killed people and left buildings intact. The nickname was reinforced by the CEO's replacement of 12 of his 14 business heads. During this period, Welch was named "toughest boss in America."

A New Culture. Welch wanted a corporate culture based on direct conversations of openness and candor, eyeball to eyeball, between managers and direct reports rather than via formal meetings and bureaucratic paperwork. A practice called Work-Out was one answer. Groups of up to 100 employees from a business unit would gather in a town meeting-style atmosphere. The business unit boss presented a challenge and left the room. Employees divided into teams and attacked problems and bureaucratic inefficiencies in their business unit with new, often dramatic, solutions. On the third day, bosses returned and listened to the teams' presentations. Bosses had about one minute to decide whether to accept or reject each proposal. One boss from an aircraft engine factory accepted 100 of 108 proposals, enabling a transformation in factory operations. Bosses often lost their jobs if they were unable to accept the dramatic change proposals from subordinates. Over 10 years, about 200,000 GE members participated in Work-Out.

Going Global. Welch also focused GE on global expansion. The U.S. market was not big enough. Welch encouraged international expansion by increasing the standard for business unit performance from being the "No. 1 or No. 2" business in your industry to being the No. 1 or No. 2 business in *the world*! To support each company's global effort, he hired a senior manager of International Operations to facilitate each business's overseas expansion. GE managers had to learn to think and act globally.

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Performance Management, Stretch Goals, and Control. Welch and his most senior executives were responsible for the progress of GE's top 3,000 executives. They visited each company to review progress toward stated targets, often including "stretch" goals, another concept Welch introduced. Stretch goals used managers' "dreams" as targets that might be impossible to reach but would motivate exceptional accomplishment. In another move, Welch installed a manager evaluation system on a "vitality curve." This annual review process became known as "rank and yank," because the top 20 percent received generous rewards, the vital 70 percent were largely left alone, and the bottom 10 percent were encouraged to leave the company.

E-Business. About two years from retirement, Welch saw the potential of the Internet as "the biggest change I have ever seen." He thought a big, traditional company like GE might be afraid of the new technology, so he required each business unit to establish a full-time team charged with including strategic opportunities for the Internet. Digitizing the company was Welch's final major initiative.

To summarize, the Jack Welch era at GE was the most phenomenal in company history. Welch and GE earned prestigious awards, such as *Financial Times* naming GE the "Most Admired Company in the World." Moreover, Jack Welch became an icon for brilliant management and his name became known in popular culture. GE's market value increased an astonishing 27 times from $18 billion to $500 billion under Welch's guidance. In the year 2000, GE was the most valuable company in the world.

1.1b The Jeff Immelt Era 2001–2017

Welch personally chose Jeff Immelt to become GE's new CEO. Immelt had broad experience at GE, changing jobs often across GE Appliance, GE Plastics, and GE Healthcare, eventually running the healthcare unit.

The External Environment. Immelt and GE faced major environmental challenges almost from Day 1—starting with the September 11, 2001 terrorist attacks that stunned the world. GE also endured the 2002 stock market crash, an oil price collapse, and the 2008 collapse of Wall Street and the long global recession that followed.

Strategy Changes. Immelt shifted GE toward an industrial business focus consistent with GE's industrial roots while simultaneously learning to thrive in the Internet age. He added software capability to GE and predicted GE would become a major software company. Immelt also placed special emphasis on globalization and on more innovations via greater investments in research and development.

Innovation. Under Immelt's watch, GE developed a new concept called "reverse innovation." GE's innovation strategy for decades had been to develop high-end products in the United States and then sell the products internationally with modest adaptations to fit local conditions. Reverse innovation means to develop low-end products in poor countries and then sell those products in wealthy, well-developed countries. One example was the development of a cheap, portable ultrasound machine in China that was also sold successfully in the United States and Europe.

Sustainability. At GE, sustainability means aligning business strategy to meet societal needs, while minimizing environmental impact and advancing social development. Immelt pushed GE to embed sustainability at every level, from high-visibility

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initiatives such as Ecomagination (building machines that produce cleaner energy, reduce greenhouse gas emissions, and reduce clean water use) down to day-to-day safety management for employees. Sustainability also means promoting diversity, investing for affordable healthcare, investing in clean energy, and meeting ambitious environmental goals to reduce emissions.

Big Decisions. Immelt's biggest decisions were to sell most of GE Capital and to acquire the French energy business Alstom. GE Capital provided a variety of financial services—credit cards, car loans, real estate loans, subprime mortgages, and equipment leasing. GE Capital was a highly profitable business. After the 2008 financial crisis, however, GE Capital was designated "too big to fail." Investors feared huge losses, so large parts of GE Capital were divested. This was a tough decision because in some previous good years GE Capital provided nearly half of GE's revenue and profits.

The Alstom acquisition decision proved to be something of a disaster. At $13 billion, it was GE's largest industrial acquisition. Managers soon realized not only that Alstom was operating inefficiently, but the demand for its gas-powered generation equipment was in decline. Immelt ordered Alstom to downsize by 12,000 employees. After paying $13 billion for Alstom, GE later took a write down of almost $20 billion.

More Globalization. Immelt pushed international business beyond Welch's earlier goals. He increased global revenue to 55 percent of total revenue compared to 30 percent when he took over. He explained that 90 percent of aircraft engines, 100 percent of gas turbines, and 50 percent of locomotives that GE manufactures leave the country. "That is where the customers are," he said. Immelt championed the launch of GE's Global Growth Organization (GGO), designed to work across the business units to increase sales in markets outside the United States.

Digitalizing for Big Data Analytics. Immelt sponsored a large research effort into a sophisticated data analytics platform called Predix. This cloud-based operating system would allow GE to put sensors on industrial equipment sold to customers (e.g., jet engines, locomotives) that would provide huge volumes of data to analyze machine performance and predict maintenance requirements. These data would enable GE to offer new and profitable services to customers.

To summarize Immelt's era at General Electric, most analysts thought GE fell behind rather than moved ahead. Immelt did all he could over his time as CEO to increase the value of GE stock, but over those 17 years share price declined by close to 30 percent while comparable companies (the S&P 500) rose by 124 percent. GE shed more than $150 billion in value compared to the $480 billion increase during Jack Welch's reign. Some analysts argued that the GE conglomerate should be broken up or dramatically slimmed down by selling its pieces and killing all investments in R&D and innovation. They criticized Immelt for being overly optimistic in his decisions and for not confronting the reality of GE's problems.

1.1c Events Since 2017

In 2017, GE announced that John Flannery, head of GE Healthcare, would follow Immelt as CEO. GE's stock price soon dropped 45 percent. GE hit rock bottom during late 2018 and early 2019—its market value was about 1/10 of its peak under Jack Welch. The stock dividend that had supported GE widows and seniors for

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decades was cut to a single penny. The icing on the not-so-pretty cake was when GE was cut from its coveted position in the prestigious Dow Jones Industrial Average.

GE's Board of Directors soon decided that Flannery lacked the experience to handle the flow of crises at GE while he was still learning the company. The new CEO was 55-year-old Larry Culp, Lead Director on GE's Board, who had 14 years' experience as CEO of Danaher Corporation. People are counting on Culp to reinstate the kind of business culture at GE that inspired other companies to copy it. Culp thought GE had become too large and complicated to be managed effectively, and he decided to slim down the company, including selling GE's biotechnology business for $21 billion. During Culp's first few months as CEO in 2019, GE's stock started moving in a positive direction. With hope and hard work, managers, employees, and analysts expect the renewal of GE into an image of its former self will continue.[1]

1.2 Organization Design in Action

Welcome to the real world of organization design. The shifting fortunes of GE illustrate organization design in action. GE managers were deeply involved in organization design each day of their working lives—but many never realized it. Company managers didn't fully understand how the organization related to the environment or how it should function internally. Organization design gives us the tools to evaluate and understand how and why some organizations grow and succeed while others do not. It helps us explain what happened in the past, as well as what might happen in the future, so that we can manage organizations more effectively. Organization design concepts can help Larry Culp and other GE managers analyze and diagnose what is happening and the changes that will help GE keep pace with a fast-changing world. Organization design gives people the tools to explain the decline of GE and recognize the steps managers might take to keep the company competitive.

Similar problems have challenged numerous organizations. Toyota Motor Corporation, for example, had the best manufacturing system in the world and was the unchallenged auto quality leader for decades. But when top managers started implementing high-pressure goals for extensive global growth, the famous quality system was strained to a breaking point. By 2009, Toyota found itself in the middle of a crisis that culminated in the recall of more than 9 million cars due to quality problems.[2] Sales at Papa John's pizza chain dropped after a highly-publicized incident of founder John Schnatter using a racial slur led to the exposure of a corporate culture that belittled women and minorities. Schnatter resigned. The Board of Directors asked an outside firm to oversee an audit of the corporate culture, and the company began holding workshops on diversity and inclusion to try to fix the dysfunctional culture.[3] Or consider Kodak, the company that once ruled the photographic film business. Kodak invented one of the first digital cameras and spent hundreds of millions of dollars developing digital technology, but the fear of cannibalizing their lucrative film business paralyzed managers when the time came to go to market. Kodak filed for bankruptcy in 2012 and is now a shell of the company it was prior to the digital camera revolution.[4]

1.2a Topics

Each of the topics to be covered in this book is illustrated in the opening General Electric case. Indeed, managers at organizations such as General Electric, Toyota,

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Kodak, and Papa John's are continually faced with a number of challenges. For example:

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

These are the topics with which organization theory and design is concerned. Organization design concepts apply to all types of organizations in all industries. Managers at Hyundai, for example, turned the Korean auto manufacturer once known for producing inexpensive no-frills cars with a poor reputation into the world's third largest automaker by relentlessly focusing on quality, cost-control, and customer satisfaction. After Google pulled its search engine and Gmail out of China in protest over censorship and government hacking, managers found a way to keep a foothold in the lucrative market by building relationships with local partners such as Mobvoi, Tencent Holdings Ltd., and others. Google has been negotiating to provide software and cloud-hosting services that would run on a data center owned by a Chinese local partner. Managers at the Swedish furniture giant IKEA are undertaking the most dramatic restructuring in company history to cope with rapid changes in shopping habits.[5] All of these companies are using concepts based in organization design. Organization design also applies to nonprofit organizations such as United Way, Best Friends Animal Society, local arts organizations, colleges and universities, and the Make-A-Wish Foundation, which grants wishes to terminally ill children.

Organization design draws lessons from organizations such as GE, Google, and United Way and makes those lessons available to students and managers. As our opening example of GE shows, even large, successful organizations are vulnerable, lessons are not learned automatically, and organizations are only as strong as their decision makers. Research shows that many new companies don't survive past their fifth birthday, yet some organizations thrive for 50 or even 100 years. Organizations are not static; they continuously adapt to shifts in the external environment. Today, many companies are facing the need to transform themselves into dramatically different organizations because of new challenges in the environment.

BRIEFCASE

As an organization manager, keep these guidelines in mind:

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

1.2b Purpose of This Chapter

The purpose of this chapter is to explore the nature of organizations and organization design today. Organization design has developed from the systematic study of organizations by scholars. Concepts are obtained from living, ongoing organizations. Organization theory and design has a practical application, as illustrated

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by the GE case. It helps managers understand, diagnose, and respond to emerging organizational needs and problems.

We first take a deeper look at the challenges today's managers and organizations face. The next section begins with a formal definition of the organization as an open system and then explores introductory concepts for describing and analyzing organizations, including various structural dimensions and contingency factors. We introduce the concepts of efficiency and effectiveness and describe the most common approach to measuring organizational performance. Succeeding sections examine the history of organization design, the distinction between mechanistic and organic designs, and how organization theory can help people manage complex organizations in a rapidly changing world. The chapter closes with a brief overview of the themes to be covered in this book.

1.2c Current Challenges

Research into hundreds of organizations provides the knowledge base to make GE and other organizations more effective. Challenges organizations face today are different from those of the past, and thus the concept of organizations and organization design is evolving. This chapter's BookMark describes two recent organizational forms that are altering the organizational landscape. The world is changing more rapidly than ever before, and managers are responsible for positioning their organizations to adapt to new needs. Some specific challenges today's managers and organizations face are globalization, intense competition, rigorous scrutiny of sustainability and ethical practices, the need for rapid response, and incorporating digital business and big data analytics.

Globalization. The cliché that the world is getting smaller is dramatically true today. Markets, technologies, and organizations are becoming increasingly interconnected.[6] Managers who can help their companies develop a global perspective are in high demand. For example, consider Ramon Laguarta, a native of Barcelona, Spain, who took over as CEO of PepsiCo in 2018, Indian American Sundar Pichai, CEO of Google, or Medtronic CEO Omar Ishrak, a Bangladesh native who was educated in the United Kingdom and worked in the United States for nearly two decades.

Today's successful organizations feel "at home" anywhere in the world. Companies can locate different parts of the organization wherever it makes the most business sense: top leadership in one country and technical brainpower and production in other locales. Related trends are *global outsourcing,* or contracting out some functions to organizations in other countries (Nike), and *strategic partnering* with foreign firms to gain a global advantage (Google). Cross-border acquisitions and the development of effective business relationships in other countries are vital to many organizations' success. Yet doing business on a global scale is not easy. After a new European Union privacy law went into effect in mid-2018, the French data protection authority fined Google 50 million euros (about $57 million) for not properly disclosing to users how it collected data to provide personalized ads.[7] Uber has pulled out of several global markets, including China, Russia, and Southeast Asia, after it got into trouble defying government regulations in various countries.[8] Another issue concerns outsourcing and contractor relationships. Several garment factory fires in Bangladesh and the collapse of another apparel plant that killed more than 1,100 workers put the spotlight on poor working conditions in that country.

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