ESSENTIALS OF MANAGEMENT

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Kent Thiry, chief executive of DaVita of El Segundo, California, the No. 2 dialysis-treatment operator in the country, starts worrying he is out of touch when all he hears is good news. At a recent annual staff gathering, thousands of employees said yes when he asked if integrating recently acquired Gambro Healthcare was “a fun process.” His response? “Either you’re all on drugs or better than me because integrations are a god-awful nightmare.”

He also told employees how much he depended on their frank feedback to avoid “messing up” the Gambro integration. He said he was paying attention to complaints from former Gambro managers who were being asked to adjust to dozens of new systems and employee practices. Among the issues was an order to assign one employee at each center to greet patients or sit with them in the waiting room. “Gambro people told us to grow a brain” about greeters, he said, and that prompted him to rescind the directive.

DaVita was a mess when Thiry took the helm nearly six years ago, in default on its bank loans and barely able to make payroll. Turnover was a steep 45 percent a year, and it included employees with the most knowledge about which problems were most acute and which needed to be fixed first.

Thiry’s encouragement of frank feedback has helped the company cut employee turnover by 50 percent and grow revenues to
more than $5 billion and achieve the industry’s best clinical outcomes. At the outset, he sold off assets and overhauled payment systems. Rather than issuing orders, he made front-line employees an integral part of turnaround decision making, seeking their views on equipment maintenance, inventory management, and cutting costs by reusing supplies.

Most important, says Thiry, is for executives who seek frank feedback to be candid about their own shortcomings. In the performance review he recently received from his 13 senior executives, he received a bad grade for giving too much negative feedback. He said, “They say I’m not harder on them than I am on myself but my negativity isn’t constructive.”

A key point the DaVita anecdote illustrates is that adjusting an organization’s culture can help the company succeed. At DaVita, the culture was fine-tuned toward more truth telling and honest feedback. Organization culture is one of the several major themes in this chapter. In Chapter 7, we described how the tasks of an organization are divided into jobs for individuals and groups. Companies also subdivide work through an organization structure—the arrangement of people and tasks to accomplish organizational goals. The structure specifies who reports to whom and who does what, and is also a method for implementing a strategy, or for accomplishing the purpose of the organization. For example, top management at Subway wants to sell millions and millions of sandwiches and beverages, so it places thousands of stores and counters in convenient locations, even at some service stations.

In addition to structure and culture, this chapter explains how to manage change. All three topics are fundamental aspects of understanding how organizations function.

BUREAUCRACY AS AN ORGANIZATION STRUCTURE

A bureaucracy is a rational, systematic, and precise form of organization in which rules, regulations, and techniques of control are specifically defined. Think of bureaucracy as the traditional form of organization, with other structures as variations of, or supplements to, bureaucracy. Do not confuse the word bureaucracy with bigness. Although most big organizations are bureaucratic, small firms can also follow the bureaucratic model. An example might be a small, carefully organized bank.

Principles of Organization in a Bureaucracy

The entire classical school of management contributes to our understanding of bureaucracy. Yet the essence of bureaucracy can be identified by its major characteristics and principles as listed next:

1. **Hierarchy of authority.** The dominant characteristic of a bureaucracy is that each lower organizational unit is controlled and supervised by a higher one. The person granted the most formal authority (the right to act) occupies the top place of the hierarchy. Exhibit 8-1 presents a bureaucracy as pyramid-shaped. The number of employees increases substantially as one moves down each successive level. Most of the formal authority concentrates at the top and decreases with each lower level.

2. **Unity of command.** A classic management principle, unity of command, states that each subordinate receives assigned duties from one superior only and is accountable to that superior. In the modern organization many people serve on projects and teams in addition to reporting to their regular boss, thus violating the unity of command.

3. **Task specialization.** In a bureaucracy, division of labor is based on task specialization. To achieve task specialization, organizations designate separate divisions or departments, such as new product development, customer service, and information technology. Workers assigned to these organizational units employ specialized knowledge and skills that contribute to the overall effectiveness of the firm.

4. **Responsibilities and job descriptions.** Bureaucracies are characterized by rules that define the responsibilities of employees. In a highly bureaucratic organization, each employee follows a precise job description, and therefore knows his or her job expectations. Also, the responsibility and authority of

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**Exhibit 8-1 The Bureaucratic Form of Organization**

In a bureaucracy, power is concentrated at the top, yet many more employees occupy lower levels in the organization. Note that team leaders are typically found at the first level or middle level of management.
each manager is defined clearly in writing. Responsibility defined in writing lets managers know what is expected of them and what limits are set to their authority.

5. **Line and staff functions.** A bureaucracy identifies the various organizational units as being line or staff. Line functions involve the primary purpose of an organization or its primary outputs. In a bank, line managers supervise work related to borrowing and lending money. Staff managers assist the line functions. Staff managers take responsibility for important functions such as human resources and purchasing. Although staff functions do not deal with the primary purposes of the firm, they play an essential role in achieving the organization’s mission.

**Advantages and Disadvantages of Bureaucracy**

Bureaucracy made modern civilization possible. Without large, complex organizations to coordinate the efforts of thousands of people, we would not have airplanes, automobiles, skyscrapers, universities, vaccines, or space satellites. Many large bureaucratic organizations successfully continue to grow at an impressive pace, such as Wal-Mart and General Electric. A major reason that hierarchies continue to thrive is that they fill the basic need for order and security. People want order, predictability, and structures they can understand, such as getting in touch with the tech center when a desktop computer breaks down. Hierarchies help us satisfy other psychological needs through such mechanisms as career ladders, and giving us identity by belonging to a stable organization.² Also, organizations such as banks, pharmaceutical firms, and hospitals have to follow tight regulations for the good of the public.

In an attempt to make their companies less bureaucratic, many executives eliminate policies, rules, and regulations. However, these procedures often embody an invaluable source of effective organizational practices. Paul S. Adler says, “Having tossed out the manuals, many organizations discover that their employees are frustrated because now they have to improvise without even a common melody line let alone a complete score.”³

Despite the contributions of bureaucracy, several key disadvantages exist. A bureaucracy can be rigid in handling people and problems. Its well-intended rules and regulations sometimes create inconvenience and inefficiency. For example, requiring several layers of approval to make a decision causes the process to take a long time. Another substantial problem in a pronounced bureaucracy is that many workers pass responsibility to another department for dealing with a problem. A typical comment is, “You will have to be in touch with (another department) to solve that problem.” Other frequent problems in a bureaucracy are frustration from sources such as red

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tape, slow decision making based on the layers of approval required, and the occurrence of frequent meetings.

An example of the rigidity and heavy-handedness possible in a bureaucracy took place at General Motors Corp. In December 2005, GM ran ads across the United States showing Cadillacs being driven through snow. The decision was made by executives in Detroit, where snow often falls during winter. The ads also ran in Miami, a bustling car market where GM has struggled for 15 years. According to one analysis, one reason GM is having a difficult time persuading Americans to buy its cars is the company’s cumbersome and unresponsive bureaucracy. (In defense of GM, the company has also had big successes in marketing the Cadillac, including the appeal of the Escalade to affluent young people.)

To examine your own orientation to the bureaucratic form of organization, take the self-quiz presented in Exhibit 8-2.

### Exhibit 8-2 Understanding Your Bureaucratic Orientation

Answer each question “mostly agree” (MA) or “mostly disagree” (MD). Assume the mind-set of attempting to learn something about you rather than impressing a prospective employer.

<table>
<thead>
<tr>
<th></th>
<th>MA</th>
<th>MD</th>
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</thead>
<tbody>
<tr>
<td>1. I value stability in my job.</td>
<td></td>
<td></td>
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<tr>
<td>2. I like a predictable organization.</td>
<td></td>
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</tr>
<tr>
<td>3. I enjoy working without the benefit of a carefully specified job description.</td>
<td></td>
<td></td>
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<tr>
<td>4. I would enjoy working for an organization in which promotions were generally determined by seniority.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Rules, policies, and procedures generally frustrate me.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. I would enjoy working for a company that employed 95,000 people worldwide.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Being self-employed would involve more risk than I’m willing to take.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Before accepting a position, I would like to see an exact job description.</td>
<td></td>
<td></td>
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<tr>
<td>9. I would prefer a job as a freelance landscape artist to one as a supervisor for the Department of Motor Vehicles.</td>
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<td></td>
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<tr>
<td>10. Seniority should be as important as performance in determining pay increases and promotion.</td>
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<td></td>
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<tr>
<td>11. It would give me a feeling of pride to work for the largest and most successful company in its field.</td>
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<tr>
<td>12. Given a choice, I would prefer to make $100,000 per year as a vice-president in a small company than $120,000 per year as a middle manager in a large company.</td>
<td></td>
<td></td>
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</tbody>
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(Continued)

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13. I would feel uncomfortable if I were required to wear an employee badge with a number on it.

14. Parking spaces in a company lot should be assigned according to job level.

15. I would generally prefer working as a specialist to performing many different tasks.

16. Before accepting a job, I would want to make sure that the company had a good program of employee benefits.

17. A company will not be successful unless it establishes a clear set of rules and regulations.

18. I would prefer to work in a department with a manager in charge than to work on a team where managerial responsibility is shared.

19. You should respect people according to their rank.

20. Rules are meant to be broken.

Score: ________

Scoring and interpretation: Give yourself one point for each question you answered in the bureaucratic direction, then total your score.

1. Mostly agree 8. Mostly agree 15. Mostly disagree
3. Mostly disagree 10. Mostly agree 17. Mostly agree
7. Mostly agree 14. Mostly agree

15–20 You would enjoy working in a bureaucracy.

8–14 You would experience a mixture of satisfactions and dissatisfactions if working in a bureaucracy.

0–7 You would most likely be frustrated by working in a bureaucracy, especially a large one.


DEPARTMENTALIZATION

Bureaucratic and other forms of organization subdivide the work into departments, or other units, to prevent total confusion. Can you imagine an organization of 300,000 people, or even 300, in which all employees worked in one large department? The process of subdividing work into departments is called departmentalization.

This chapter uses charts to illustrate four frequently used forms of departmentalization: functional, geographic, product-service, and customer. In practice, most organization charts show a combination of the various types, and therefore have hybrid organization structures. The most appropriate form of departmentalization is the one that provides
the best chance of achieving the organization’s objectives. The organization’s environment is an important factor in this decision. Assume that a company needs to use substantially different approaches to manufacturing, marketing, and distributing a product. It would organize the firm according to the product, such as pharmaceuticals and beauty products.

**Functional Departmentalization**

Functional departmentalization defines departments by the function each one performs, such as accounting or purchasing. Dividing work according to activity is the traditional way of organizing the efforts of people. In a functional organization, each department carries out a specialized activity, such as information processing, purchasing, sales, accounting, or maintenance. Exhibit 8-3 illustrates an organization arranged on purely functional lines. The major subdivisions further divide along their own functional lines as shown in Exhibit 8-4. The exhibit shows the functional organization within the materials management department.

The list of advantages and disadvantages of the functional organization, the traditional form of organization, reads the same as for bureaucracy. Functional departmentalization works particularly well when large batches of work have to be processed on a recurring basis and when the expertise of specialists is required. As with any form of departmentalization, a major problem is that the people within a unit may not communicate sufficiently with workers in other units.

**Geographic Departmentalization**

Geographic departmentalization is an arrangement of departments according to the geographic area or territory served. In this organization structure, people performing all the activities for a firm in a given geographic area report to one manager, often with a title like “Regional Vice-President.” Marketing divisions often use territorial departmentalization; the sales force may be divided into the northeastern, southeastern, midwestern, northwestern, and southwestern regions.

Geographic departmentalization that divides an organization into geographic regions generally works well for international business. Yet in a
new global business trend, organizations develop a central structure that serves operations in various geographic locations. A case in point is Ford Motor Company. To economize, Ford merged its manufacturing, sales, and product development operations in North America, Europe, Latin America, and Asia.

A key advantage of geographic departmentalization is that it allows for decision making at a local level, where the personnel are most familiar with the problems and the local culture, including tastes in fashion, product styling, and food. Geographic departmentalization also presents some potential disadvantages. The arrangement can be quite expensive because of duplication of costs and effort. For instance, each region may build service departments (such as for purchasing) that duplicate activities carried out at headquarters. A bigger problem arises if top-level management experiences difficulty controlling the performance of field units.

**Product–Service Departmentalization**

*Product–service departmentalization* is the arrangement of departments according to the products or services they provide. When specific products or services are so important that the units that create and support them almost become independent companies, product–service departmentalization makes sense. The departments of this size are usually labeled as divisions. With very successful products, the organizational unit making the product becomes a division, such as the wireless product division of Verizon.

Exhibit 8-5 presents a version of product–service departmentalization. Notice that the four finance divisions offer products or services with unique demands of their own. For example, the sale of insurance and investment products is a different business than lending money to business firms. Notice also that the same customer might purchase services from one or more divisions, such as a small business purchasing life insurance from one unit, and borrowing money to finance a new machine from another. As a consequence, the structure is not customer departmentalization.

Organizing by product line offers numerous benefits because employees focus on a product or service, which allows each division or department the
maximum opportunity to grow and prosper. An important marketing and sales advantage is that sales representatives are assigned to one product or service group in which they become experts, rather than being sales generalists. Several years ago Hewlett-Packard shifted back to product-specific reps so they would no longer be sending generalist account reps up against the “razor-focused sales people from the likes of Dell, printer specialist Lexmark International Inc., and storage giant EMC Corp.”

In a smooth-running organization with open communication, the various product or service units cooperate with each other for mutual benefit. A case in point is the healthcare giant Johnson & Johnson. A division that develops an improved method of delivering drugs (such as a skin patch) would typically share that development with another division. Human care could therefore improve pet care and vice versa! Similar to geographic departmentalization, grouping by product or service fosters high morale, and allows decisions to be made at the local level. Departmentalization by product poses the same potential problems as geographic departmentalization. It can be expensive because of duplication of effort, and top-level management may find it difficult to control the separate units.

MODIFICATIONS OF THE BUREAUCRATIC ORGANIZATION

To overcome some of the problems of the bureaucratic (including the functional) structure, several other organization structures have been developed. Virtually all large organizations combine bureaucratic and less bureaucratic forms. This section describes three popular modifications of bureaucracy: the matrix organization; flat structures, downsizing, and outsourcing; and the horizontal structure.

The Matrix Organization
Departmentalization tends to be poorly suited to performing special tasks that differ substantially from the normal activities of a firm. Project organization,
in which a temporary group of specialists works under one manager to accomplish a fixed objective, offers one widely used solution to this problem. Used most extensively in the military, aerospace, construction, motion picture, and computer industries, project management is so widespread that software has been developed to help managers plot out details and make all tasks visible. The project manager has long been a central figure in getting major tasks accomplished, such as seeing a new product to completion. A more recent role emphasized for the project manager is as a linking pin between an organization providing service and the client. An example would be a project manager at the General Electric division that services airplane engines spending time on the premises of United Airlines to help with the service project.

The best-known application of project management is the matrix organization, a project structure superimposed on a functional structure. Matrix organizations evolved to capitalize on the advantages of project and functional structures, while minimizing their disadvantages. The project groups act as mini-companies within the firm in which they operate. However, the group usually disbands after completing its mission. In some instances, the project proves so successful that it becomes a new and separate division of the company.

Exhibit 8-6 shows a popular version of the matrix structure. Notice that functional managers exert some functional authority over specialists assigned to the projects. For example, the quality manager occasionally meets with the quality specialists assigned to the projects to discuss their professional activities. The project managers hold line authority over the people assigned to their projects.

The project managers borrow resources from the functional departments, a feature that distinguishes the matrix from other organizational structures. Also, each person working on the project reports to two superiors: the project manager and the functional manager. For example, observe the quality analyst in the lower right corner of Exhibit 8-6. The analyst reports to the manager of quality three boxes above him or her and to the project manager for the digital camera/camcorder project located five boxes to the left.

Users of the matrix structure include banks, insurance companies, aerospace companies, and educational institutions. Colleges often use matrix structures for setting up special interest programs. Among them are African American studies, industrial training, and an executive MBA program. A director who uses resources from traditional departments heads each of these programs.

Flat Structures, Downsizing, and Outsourcing

Three closely related approaches to simplifying an organization structure include creating flat structures, downsizing, and outsourcing. Reducing the number of layers typically makes an organization less bureaucratic.

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**Flat Structures**

Organizations with a bureaucratic structure tend to accumulate many layers of managers, and often too many employees in general. For example, before Hewlett Packard was overhauled in 2005, there were 11 layers of management between the CEO and the customer. At times, staff groups outnumber the line groups. Top management may then decide to create a flat organization structure, a form of organization with relatively few layers. A flat organization structure acts less bureaucratically for two reasons. First, fewer available managers review the decisions of other workers. Second, a shorter chain of command means that managers and workers at lower levels can make decisions more independently.

An important consequence of creating flat structures leaves the remaining managers with a larger span of control—the number of workers reporting directly to a manager. A large span of control works best with competent and efficient managers and group members. When group members do relatively similar work, the manager can supervise more people.

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**Matrix Organization Structure in an Electronics Company**

Personnel assigned to a project all report to two managers: a project head and a functional manager.

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![Matrix Organization Structure in an Electronics Company Diagram](image-url)

**flat organization structure**
A form of organization with relatively few layers of management, making it less bureaucratic.

**span of control**
The number of workers reporting directly to a manager.
Small enterprises often use flat structures. Bill Gilmer runs his 16-person commercial printing company with as few managers as possible. “We’re an extremely flat organization,” says the owner of Wordsprint Inc., in Wytheville, Virginia. Gilmer has made big investments in technology to make sure each of his press operators and other key employees has all the information he or she needs to make decisions without a supervisor.7

Management writer Mark Henricks observes that an organization can be too flat. The key is to make sure your organization doesn’t have too many managers—nor too few. When you have too little hierarchy, decisions don’t get made or are made wrongly by employees who lack experience, accountability, or motivation to do the work of the missing managers.8

**Downsizing**

In Chapter 3 we analyzed downsizing as it related to social responsibility. Downsizing can also be viewed as a way of simplifying an organization to make it less bureaucratic. Under ideal circumstances, downsizing also leads to better profits and higher stock prices. The motivation behind most downsizings of both assets (such as company divisions or buildings) and workers comes from the drive to reduce costs and increase profits. Yet, downsizing can be expensive. Among the costs associated with downsizing that need to be considered are severance pay, supplements to early retirement plans, disability claims, and lowered productivity resulting from possible decline in staff morale.9

For downsizing to help the company in the long run, it should be part of a business strategy to improve the company, not just a stopgap measure to save money. Examples would be using downsizing to eliminate duplication of jobs after a merger, or to exit a business that does not fit a new strategy. **Eliminating low-volume and no-value activities** provides an early step in effective restructuring. This **activity-based reduction** systematically compares the costs of a firm’s activities to their value to the customer. In searching for low-value activity, workers monitor the output of others. **Keeping the future work requirements in mind** also contributes to effective restructuring. Letting go of people who will be an important part of the firm’s future rarely provides an effective answer to overstaffing. **Sensible criteria should be used to decide which workers to let go.** In general, the poorest performers should be released first. Offering early retirement and asking for voluntary resignations also leads to less disruption. Laid-off workers should be **offered assistance in finding new employment or reorienting their career.**

A comprehensive principle of downsizing or resizing a company is to **involve employees in the resizing process.** Top-level management may have to decide which employees will be terminated, yet workers can be involved in making suggestions about how the work should be reassigned. At a successful resizing in a publishing company, middle-level managers helped design the

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7 Quoted in Mark Henricks, “Falling Flat?” *Entrepreneur*, January 2005, pp. 69–70.
8 Hendricks, “Falling Flat?” p. 70.
resized organization. They also identified opportunities such as eliminating unnecessary work and redeploying workers to support more profitable divisions of the publisher.10

**Outsourcing**

Outsourcing is part of globalization but is also part of the organization structure by having other companies perform part of your work. By outsourcing, a company can reduce its need for employees and physical assets and their associated costs. Outsourcing to low-wage regions also saves money if the work is performed properly. Productivity can increase because work is performed more economically. A major justification for outsourcing is that a company is likely to profit when it focuses its effort on activities it performs best, while noncore activities such as human resources and information systems are performed by outside experts. Yet, as outsourcing has evolved, considerable core work, including research and development, and marketing, is being outsourced. Companies such as Dell, Motorola, and Philips purchase complete designs for some digital devices from Asian developers. Later the designs are modified to the well-known company’s specifications and labeled as the company’s own brand.11

The outsourcing movement continues to grow through many small and medium-sized firms that perform stable work for larger organizations. At the same time smaller enterprises themselves outsource considerable work such as paperwork processing, and labeling, mailing, and shipping.

United Parcel Service (UPS) exemplifies how far outsourcing has advanced. The world’s largest delivery company provides a wide variety of services for other companies through its subsidiary, UPS Supply Chain Solutions. The services other companies outsource to UPS include emergency electronic repairs, fixing laptops, installing giant X-ray machines, operating customer-service hotlines, packaging consumer electronics, and issuing corporate credit cards. The type of work Supply Chain provides lends itself to domestic outsourcing because much of the work is needed urgently. UPS stores every conceivable part in its giant warehouse in Louisville, Kentucky, so it can perform repairs quickly. (For this type of operation, the just-in-time inventory system would be counterproductive because speed of repair is a success factor.) The highly regarded brand name, UPS, has facilitated the growth of the outsourcing business.12 Outsourcing partners like UPS work so closely with their customers that they become virtually part of their client’s business.

A rapidly growing development in outsourcing is homeshoring, or moving customer service into workers’ homes as a form of telecommuting. Instead of customer service work being performed at domestic and foreign call centers, it is performed by teleworkers. At JetBlue Airways, all 1,400 reservation agents work from home as company employees. The majority of the new homeshoring jobs are for independent contractors given assignments...
by outsourcing companies. The agents pay for their own health care insurance, telephone, and computer equipment. Home-based agents are typically stay-at-home moms, with a higher level of education than call center workers. Two key advantages of homeshoring are that the workers know the culture of the country and are a flexible, just-in-time workforce, with shifts lasting as little as 15 minutes.13

Homeshoring has all the advantages and disadvantages of telecommuting, yet the domestic call agent has to be extra careful about background noises such as a television set, phone calls, children playing, and dogs barking. If you supervise homeshore workers, it is important to stay in touch and offer encouragement and recognition.

Outsourcing is a form of organization structure that management must carefully evaluate. Outsourcing may save money and acquire expertise not available in-house, yet there is much to be said for building a company with a loyal workforce that has company pride. Great companies built in the past and the present, such as Colgate Palmolive and Google, did not achieve their greatness through outsourcing every conceivable business process.

The Horizontal Structure (Organization by Team and Process)
In the traditional organization, people in various organization units are assigned specialized tasks such as assembly, purchasing, marketing, and shipping. In another approach to organization structure, a group of people concerns itself with a process, such as filling an order or developing a new product. Instead of focusing on a specialized task, all team members focus on achieving the purpose of all the activity, such as getting a product in the hands of a customer.

A horizontal structure is the arrangement of work by multidisciplinary teams that are responsible for accomplishing a process. Exhibit 8-7 illustrates a horizontal structure, as do the projects shown in Exhibit 8-6. The employees take collective responsibility for customers, and they work together to accomplish the task. Instead of one department handing off work to another department, the team members work together on the task of meeting customer requirements. A horizontal structure can therefore also be considered a team structure, and teams will be reintroduced in Chapter 13.

As with other modifications of the bureaucratic structure, the horizontal structure coexists with vertical structures. The process teams offer a balanced focus so that employees direct their effort and attention toward adding value for the customer.14 The UPS groups that provide packaging services for clients use a horizontal structure because a project manager is responsible for making sure that client needs are met. The team members focus on a single purpose such as “We have to get these Nikon cameras packed and ready for shipment.”

Switching from a vertical (task) emphasis to a horizontal (process) emphasis can be done through reengineering, the radical redesign of work to

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achieve substantial improvements in performance. Reengineering searches for the most efficient way to perform a large task. At the same time, reengineering is process innovation because it searches for new ways to perform the same process, such as revamping the way merchandise is ordered and shipped to a department store. Reengineering emphasizes uncovering wasted steps, such as people handing off documents to one another to obtain their approval. E-commerce considerably reengineers the work of sales representatives. If goods are exchanged over the Internet, the need for industrial sales representatives shrinks.

As a result of reengineering, work is organized horizontally rather than vertically. The people in charge of the process function as team leaders who guide the team toward completion of a core process such as new product development or filling a complicated order. Key performance objectives for the team would include “reduce cycle time,” “reduce costs,” and “reduce throughput time.” Team members usually have to develop a process mentality instead of the task mentality of focusing on their specialty.

The push toward the horizontal structures and a process mentality should not be embraced without qualification, however. Having a task mentality remains important because expertise is still crucial in many endeavors. A building construction team, for example, still relies on highly proficient specialists such as mechanical and electrical engineers. Wouldn’t you prefer to ride in an elevator that was designed by a highly proficient specialist?

**Informal Structures and Communication Networks**

The formal structures described in this chapter are an essential part of planning how work is performed. Nevertheless, an organization chart does not tell the whole story of how work gets accomplished. The informal organization structure is a set of unofficial relationships that emerge to take care of events and transactions not covered by the formal structure. The informal structure supplements the formal structure by adding a degree of flexibility and speed. A widespread application of the informal structure is the presence of “tech fixers” who supplement the technical
support center. For example, marketing assistant Jason might be skilled at resolving software problems created by computer viruses. As a consequence, many people call on Jason for some quick assistance even though the formal organization indicates that they should use the tech center for help with virus problems.

Informal structures are also referred to as informal networks because of the focus on how people use personal contacts to obtain information in a hurry and get work done. The informal networks reveal how well connected people are, as well as how work really gets done. An application of mapping the informal network would be in spotting talent. Some of the most respected workers might not be found on the organization chart but could be indicated by a network map because of the number of times these individuals are consulted by other workers. The highly respected workers might be tapped for key projects.

Also as part of informal networks, all organization structures described so far in this chapter are influenced by information technology. Workers from various units throughout an organization can solve problems together through information networks without being concerned with “who reports to whom,” as indicated by organization charts. Furthermore, entry-level workers can leapfrog layers of management and communicate directly with senior executives through e-mail. However, now, as in the past, entry-level workers almost never telephone a member of upper management.

Enough different organization structures have been described to create some confusion and blurring. Exhibit 8-8 indicates the unique aspect of each structure. We have added the conglomerate structure, referring to a collection of independent companies under one corporate roof. Although a term that is fading from frequent use, conglomerates still exist, with Tyco International being one of the best known.

### Key Factors that Influence the Selection of an Organization Structure

With so many organization structures, how do managers choose the best one? The answer lies in contingency management—the most effective structure depends on certain factors. Among these factors are strategy, technology, size, financial condition, and environmental stability.

1. **Strategy and goals.** As described in the history of management presented in Chapter 1, structure is supposed to follow strategy. Assume that the strategy of a business machine company is to be the friend of small businesses and individuals who want to operate business equipment in their homes. The company would choose a geographically dispersed marketing organization that gives them maximum access to small customers, such as OfficeMax and Radio Shack.

2. **Technology.** High-technology firms such as aerospace companies make extensive use of flexible structures, such as project and matrix structures.
Relatively low-technology firms such as lumber mills and refuse-collection firms rely more on bureaucratic structures. Organizations based on digital technology like Cisco Systems and Amazon.com typically use horizontal and network structures for two key reasons. The primary reason is that the technology allows for linking workers, customers, and suppliers together. A more subtle reason is that information technology–oriented workers are naturally inclined toward horizontal, free-flowing communication.

3. Size. As an organization grows and matures, it inevitably needs centralized controls and some degree of bureaucracy, or formalization. Yet when the firm becomes very large, it is necessary to develop smaller, more flexible units, such as projects and task forces. These units help the firm remain adaptive, and are found in every large organization. Large size and bureaucracy, however, are not synonymous. Some small firms, such as a local bank, might be bureaucratic because they are tightly regulated by banking laws.

4. Financial condition of the firm. Size influences structure, and the financial condition of the firm influences both size and structure. Many large business organizations have moved toward a flatter structure to trim costs. Trimming down the number of corporate positions influences structure because with fewer headquarters executives left to supervise divisions, decision-making authority becomes more decentralized. A representative example is the

<table>
<thead>
<tr>
<th>Type of Structure or Modification</th>
<th>Unique Feature or Emphasis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureaucracy</td>
<td>Hierarchical, with clear rules and regulations</td>
</tr>
<tr>
<td>Functional</td>
<td>Departments are defined by the function, or activity, they perform</td>
</tr>
<tr>
<td>Geographic</td>
<td>Departments are defined by their geographic location</td>
</tr>
<tr>
<td>Product–Service</td>
<td>Departments or divisions are defined by the major product or service they offer</td>
</tr>
<tr>
<td>Matrix</td>
<td>A project, or program, structure is superimposed on a functional structure</td>
</tr>
<tr>
<td>Flat and Downsized</td>
<td>One or more layers is removed from the structure, and the staff is reduced</td>
</tr>
<tr>
<td>Outsourcing and Homesourcing</td>
<td>Work activities are deployed outside the organization, including having it performed at peoples’ homes</td>
</tr>
<tr>
<td>Horizontal or team</td>
<td>Work is performed by multidisciplinary teams, and communication among workers is enhanced</td>
</tr>
<tr>
<td>Informal</td>
<td>People work cooperatively to fill in the gaps not taken care of by the formal organization</td>
</tr>
<tr>
<td>Hybrid</td>
<td>A structure that combines several of the above structures, such as a traditional bureaucracy also having several product or service divisions</td>
</tr>
<tr>
<td>Conglomerate</td>
<td>A large company that is really a collection of loosely related independent companies, with a minimum of direction and control from headquarters</td>
</tr>
</tbody>
</table>

10 percent workforce reduction by Intel during 2006 and 2007. The reduction included the elimination of 1,000 management jobs because company executives thought that the ranks of managers had grown faster than its overall headcount, resulting in slowed decision making at Intel.18

5. Environmental stability. When a business firm faces an uncertain and unstable environment, such as the market for high-fashion clothing or domestic electronics, it needs a highly flexible structure. Task forces and projects are often called into action to deal with a rapidly changing marketplace. Conversely, a more bureaucratic structure is better suited to dealing with more certain (stable) environments. An example is the market for leading candy bars, which has proved to be both recession-proof and resistant to competitors. The manufacturing and marketing of candy bars is more stable than the distribution because the latter has to respond to rapid changes in technology such as just-in-time shipping.

**DELEGATION, EMPOWERMENT, AND DECENTRALIZATION**

Collective effort would not be possible, and organizations could not grow and prosper, if a handful of managers did all the work themselves. In recognition of this fact, managers divide up their work. Subdividing work through the process of departmentalization has already been described. The section that follows will discuss subdivision of work using the chain of command through delegation and empowerment, and decentralization.

**Delegation of Responsibility and Empowerment**

Delegation refers to assigning formal authority and responsibility for accomplishing a specific task to another person. If managers do not delegate any of their work, they are acting as individual contributors—not true managers. Delegation relates closely to empowerment, the process by which managers share power with group members, thereby enhancing employees’ feelings of personal effectiveness. Delegation is a specific way of empowering employees, thereby increasing motivation.

A major goal of delegation is the transfer of responsibility as a means of increasing one’s own productivity. At the same time, delegation allows team members to develop by learning how to handle more responsibility and to become more productive. Even though a manager may hold a group member responsible for a task, final accountability belongs to the manager. (To be accountable is to accept credit or blame for results.) If the group member fails miserably, the manager must accept the final blame; the manager chose the person who failed.

Delegation and empowerment lie at the heart of effective management. For example, a study was conducted with management teams in 102 hotel properties in the United States. A major finding was that empowering leadership increased the sharing of job knowledge among employees, and

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effective teamwork. In turn, the improved knowledge sharing and teamwork were related to good performance.\(^{19}\)

Following the five suggestions presented next improves the manager’s chance of increasing productivity by delegating to and empowering individuals and teams.\(^{20}\) (Note that teams as well as individuals can be the unit of delegation and power sharing, such as asking a team to find a way of filling orders more rapidly.)

1. **Assign duties to the right people.** The chances for effective delegation and empowerment improve when capable, responsible, well-motivated group members receive the delegated tasks. The manager must be aware of the strengths and weaknesses of staff members to delegate effectively. However, if the purpose of delegation is to develop a group member, the present capabilities of the person receiving the delegated tasks are less important. The manager is willing to accept some mistakes as the cost of development.

2. **Delegate the whole task and step back from the details.** In the spirit of job enrichment, a manager should delegate an entire task to one subordinate rather than dividing it among several. So doing gives the group member complete responsibility and enhances motivation, and gives the manager more control over results. After the whole task is delegated, step back from the details. If a manager cannot let go of details, he or she will never be effective at delegation or empowerment.

3. **Give as much instruction as needed.** Some group members will require highly detailed instructions, while others can operate effectively with general instructions. Many delegation and empowerment failures occur because instruction was insufficient. *Dumping* is the negative term given to the process of dropping a task on a group member without instructions. Under ideal circumstances, delegating should be an opportunity for coaching employees and sharing skills with them.

4. **Retain some important tasks for yourself.** Managers need to retain some high-output or sensitive tasks for themselves. In general, the manager should handle any task that involves the survival of the unit or employee discipline. However, which tasks the manager should retain always depend on the circumstances. Strategic planning is ordinarily not delegated except to obtain input from group members.

5. **Obtain feedback on the delegated task.** A responsible manager does not delegate a complex assignment to a subordinate, then wait until the assignment is complete before discussing it again. Managers must establish checkpoints and milestones to obtain feedback on progress.

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Decentralization

Decentralization is the extent to which authority is passed down to lower levels in an organization. It comes about as a consequence of managers delegating work to lower levels. However, the term also refers to decentralization by geography. Geographic decentralization often results in passing down authority because managers in the decentralized units are granted decision-making authority. Unless so noted, this text uses the term decentralization in reference to authority. Centralization is the extent to which authority is retained at the top of the organization. Decentralization and centralization lie on two ends of a continuum. No firm operates as completely centralized or decentralized.

How much control top management wants to retain determines how much to decentralize an organization. Organizations favor decentralization when a large number of decisions must be made at lower organizational levels, often based on responding to customer needs. Johnson & Johnson, the medical and personal care products giant, favors decentralization in part because the company consists of a collection of different businesses, many with vastly different customer requirements. Division management is much more aware of these needs than are people at company headquarters. In general, a centralized firm exercises more control over organization units than a decentralized firm.

Many firms centralize and decentralize operations simultaneously. Certain aspects of their operations are centralized, whereas others are decentralized. Quick-service franchise restaurants such as Subway, Long John Silver’s, and Wendy’s illustrate this trend. Central headquarters exercises tight control over such matters as menu selection, food quality, and advertising. Individual franchise operators, however, make human resource decisions, such as hiring.

An advanced technique of juggling the forces of centralization and decentralization simultaneously is for decentralized units to remain somewhat autonomous, yet cooperate with each other for the common good. For example, the basic structure of Johnson & Johnson is a decentralized firm with 204 nearly autonomous units organized into three divisions: drugs, medical and diagnostic devices, and consumer products (such as Band-Aids and Johnson’s Baby Powder). The current emphasis at J&J is for the autonomous divisions to cooperate with each other to achieve better products—such as sutures from one division being coated with drugs from another, to help prevent infections.21

Organizational Culture

Organization structure has sometimes been referred to as the “hard side” of how a firm operates; yet understanding the “soft side” of an organization is also essential. Organizational culture (or corporate culture) is the system of shared values and beliefs that actively influence the behavior of organization members. The term shared implies that many people are guided by the same values and that they interpret them in the same way. Values develop over

time and reflect a firm’s history and traditions. Organizational culture is important to understand because it is a major factor in the success of any company. In the words of Douglas R. Conant, the dynamic CEO of Campbell Soup Co., “If you want to be a sustainably good company, you have to have a sustainably good culture.”

This section describes significant aspects of organizational culture: how it is learned, and its determinants, dimensions, consequences, and management and maintenance.

**Determinants of Organizational Culture**

Many forces shape a firm’s culture. Often its origin lies in the values, administrative practices, and personality of the founder or founders. Also, the leader’s vision can have a heavy impact on culture, such as John Chambers’ dream of Cisco Systems becoming one of the world’s greatest companies in history. A much-publicized example of the impact of a leader on culture is Herb Kelleher, the founder of Southwest Airlines, who is considered pivotal in shaping one of the most distinctive organizational cultures. Up until Kelleher’s retirement several years ago, Southwest was considered very dependent on his personality and character. After his retirement for health reasons, his personality could still be felt. At the core of Southwest are the values of humor and altruism. Flight attendants and pilots use jokes and games to put customers at ease (a practice now copied by JetBlue Airlines). An example of altruism is that Southwest employees have established a catastrophe fund to help workers who need more assistance than usual employee benefits cover.

Organizational culture responds to and mirrors the conscious and unconscious choices, behavioral patterns, and prejudices of top-level managers. As the founders leave or become less active, other top-level managers help define the culture. One of the ways in which Robert Nardelli, the former CEO and chair of Home Depot, changed the company culture was to make the company more disciplined and military-like through implementing business processes from his former employer GE, and hiring hundreds of former junior military officers.

The culture in which a society operates also helps determine the culture of the firm. Sooner or later, society’s norms, beliefs, and values find their way into the firm. Societal values are communicated through such means as the media, conversations, and education. The emphasis on sexual and racial equality in U.S. society has become incorporated into the value culture of many employers. The emphasis on collegiality translates into harmony and cooperation in the workplace at many Scandinavian companies, including Nokia. Another perspective on national culture is that the introduction of values from another society into a retail business can be a competitive advantage. For example, the Japanese values of high quality and reliability,
and spotless factories have helped fuel the success of the Toyota car brand in the United States.

The industry to which a firm belongs helps shape its culture. For example, a public utility will have a culture different from a food manufacturer of comparable size. Heavy competition and low profit margins may force the food manufacturer to operate at a faster pace than the utility, which usually competes with only several other utilities.

Dimensions of Organizational Culture

The dimensions of organizational culture help explain the subtle forces that influence employee actions. In addition to the dominant culture of a firm, the subculture also influences behavior. A subculture is a pocket in which the organizational culture differs from the dominant culture, as well as other pockets of subculture. A frequently observed difference in subcultures can be found between the marketing and production groups, even in such matters as dress and behavior. The marketing people are likely to be more style conscious and people-oriented. Six dimensions significantly influence organizational culture.24

1. Values. Values provide the foundation of any organizational culture. The organization’s philosophy expressed through values guides behavior on a day-to-day basis. Representative values of a firm might include ethical behavior, concern for employee welfare, a belief that the customer is always right, a commitment to quality, and the importance of equality and independence. A pervasive value is the importance of formality, with a heavily bureaucratic culture believing strongly in formality, including following procedures and protocol.

2. Relative diversity. The existence of an organizational culture assumes some degree of homogeneity. Nevertheless, organizations differ in terms of how much deviation can be tolerated. Many firms are highly homogeneous; executives talk in a similar manner and even look alike. Furthermore, those executives promote people from similar educational backgrounds and fields of specialty into key jobs. The diversity of a culture also reflects itself in the dress code. Some organizations insist on uniformity of dress, such as wearing a jacket and tie (for men) when interacting with customers or clients. Strongly encouraging all workers to conform to dress-down Fridays discourages diversity.

3. Resource allocations and rewards. The allocation of money and other resources exerts a critical influence on culture. The investment of resources sends a message to people about what is valued in the firm. If a customer-service department is fully staffed and nicely furnished, employees and customers can assume that the company values customer service.

4. Degree of change. The culture in a fast-paced, dynamic organization differs from that of a slow paced, stable one. A highly competitive environment

might encourage a fast-paced climate. Top-level managers, by the energy or lethargy of their stance, send signals about how much they welcome innovation. The degree of change also influences whether a culture can take root and how strong that culture can be.

5. **A sense of ownership.** The movement toward employee stock ownership in companies creates an ownership culture and inspires workers to think and act like owners. An ownership culture increases loyalty, improves work effort, and aligns worker interests with those of the company. An ownership culture can be reflected in such everyday actions as conserving electricity, making gradual improvements, and not tolerating sloppiness by coworkers. An ownership culture can backfire, however, if employee wealth stays flat or decreases as a result of stock ownership.

6. **Strength of the culture.** The strength of the culture, or how much influence it exerts, emerges partially as a by-product of the other dimensions. A strong culture guides employees in everyday actions. It determines, for example, whether an employee will inconvenience himself or herself to satisfy a customer. Without a strong culture, employees are more likely to follow their own whims—they may decide to please customers only when convenient. Unfortunately, strong cultures may develop a cult-like atmosphere in which employees become more attached to the firm than to outside life. The corporation takes over as the major source of satisfying emotional needs.25 A research study with 123 organizations found that the climate (or culture) tended to be strongest when it was unambiguous, such as clearly bureaucratic or clearly flexible.26

These dimensions represent a formal and systematic way of understanding organizational culture. In practice, people use more glib expressions in describing culture, as illustrated in Exhibit 8-9.

**How Workers Learn the Culture**

Employees learn the organizational culture primarily through socialization, the process of coming to understand the values, norms, and customs essential for adapting to the organization. Socialization is therefore a method of indoctrinating employees into the organization in such a way that they perpetuate the culture. The socialization process takes place mostly by learning through imitation and observation.

Another important way in which workers learn the culture is through the teachings of leaders, as implied in the cultural dimension of resource allocations and rewards. Organizational members learn the culture to some extent by observing what leaders pay attention to, measure, and control. Suppose a coworker of yours is praised publicly for doing community service. You are likely to conclude that an important part of the culture is to help people outside the company. Senior executives will sometimes

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publicly express expectations that help shape the culture of the firm, such as demanding data-driven decision making.

**Consequences and Implications of Organizational Culture**

The attention to organizational culture stems from its pervasive impact on organizational effectiveness. Exhibit 8-10 outlines several key consequences of organizational culture. The right organizational culture contributes to gaining competitive advantage and therefore achieving financial success. The consistently strong performance of Google can be partially attributed to its culture that values intelligence, imagination, and hard work.

The right organizational culture can enhance productivity, quality, and morale. A culture that emphasizes productivity and quality encourages workers to be more productive and quality conscious. A culture that values the dignity of human beings fosters high morale and job satisfaction. A corporate culture that encourages creative behavior contributes to innovation, as described in Chapter 5 about problem solving and decision making. Amazon chief executive Jeff Bezos notes that a culture of experimentation is crucial in a fast-changing world. He says that “Invention always leads you down paths that people think are weird.”

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**IKEA** Very informal culture with roots in Swedish culture. Emphasis on informality, cost consciousness, and a humble, down-to-earth approach. Workers are allowed considerable responsibility.

**Apple Inc.** Attitude of smugness and superiority, with a tendency to perceive other technology companies as mere imitators of the real thing (Apple), with these attitudes being strengthened with the success of the iPod. Intense fondness for innovation and freethinking, combined with a strong dislike for bureaucracy.

**United Airlines** Ailing culture, long plagued by tension between management and unions. Employees are hired for functional skills rather than relational skills. Performance is measured in a functionally specific, divisive way rather than allowing cross-functional responsibility for performance. Company bankruptcy tended to increase the negative aspects of the culture.

**Toyota** Highly disciplined approach to work with fanatic attitudes toward cleanliness, even on the manufacturing floor. Heavy orientation toward cost control and superb engineering. More concerned about efficiency than style or flash, and slow to introduce significant changes in methods or design.
A reliable predictor of success in merging two or more firms is compatibility of their respective cultures. When the cultures clash, such as a hierarchical firm merging with an egalitarian one, the result can be negative synergy. When US Airways merged with American West several years ago, the company created the position of “vice president of culture integration” to help meld the two air carriers. US Airways had a highly formal culture, and American had an easygoing, informal culture. Larry LeSueur, the new vice president, said, “I want to mold the two companies into one culture but still keep the best of both cultures.” The techniques included town hall meetings with managers and workers.28

Individuals can contribute to their own success by finding a good person—organization fit, an organization that fits his or her personality. The person who finds a good fit is more likely to experience job satisfaction, commitment to the organization, and a lesser interest in quitting.29 Similarly, an organization will be more successful when the personalities of most members fit its culture. One study measured organizations on such dimensions as stability, experimenting, risk taking, and rule orientation. Researchers then compared the preferences of professional employees regarding culture to the culture of their firms and found good person—organization fit resulted in more commitment and higher job satisfaction.30

Organizational culture powerfully influences the direction of leadership activity. Top-level managers spend much of their time working with the forces that shape the attitudes and values of employees at all levels. Leaders in key roles establish what type of culture is needed for the firm and then shape the existing culture to match that ideal, which is why outsiders are sometimes brought in to head a company.

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Managing and Sustaining the Culture

After a new CEO is appointed, the person typically makes a public statement to the effect, “My number-one job is to change the culture.” A manager might do the following to bring about change as well assuring that a healthy corporate culture is maintained.

- Serve as a role model for the desired attitudes and behaviors. Leaders must behave in ways consistent with the values and practices they wish to see imitated throughout the organization. Deere & Co. went through a major cultural change in which customer needs are satisfied through mass customization. For a strongly traditional company to undergo such change, considerable new training is necessary. Top managers at Deere both set up teams for training and participate in the training sessions themselves.  

- Impose a new approach through executive edict. The accompanying Management in Action illustrates a forceful approach by the top executive to revamp the culture of one of the world’s most admired companies.

- Establish a reward system that reinforces the culture, such as giving huge suggestion awards to promote an innovative culture. At Boeing Co., CEO W. James McNerney Jr. wants to create a common culture and work toward a shared goal. So to discourage negative internal competition and the hoarding of information, part of executive compensation is based on how well they share information with other units across the company.  

- Select candidates for positions at all levels whose values mesh with the values of the desired culture. Many firms hire only those candidates whose work and school suggest that they might be good team players—a cultural value.

- Sponsor new training and development programs that support the desired cultural values. Among many examples, top management might sponsor diversity training to support the importance of cultural diversity, or training in quality to support the value of quality. Edward W. Lambert, the chairman of Sears Holding Company (a merger of Sears and Kmart), wanted to create a culture based on selling, including improving team work and customer service. One of his techniques to achieve this goal was a training session for 500 managers in which he showed clips from *Miracle on Ice*, about the U.S. hockey team that won the gold medal in the 1980 Winter Olympics.  

- Conduct conference calls in a large company to discuss progress toward building the new culture. One of the biggest cultural change initiatives of all time took place at Home Depot when Nardelli wanted to make the company more disciplined like a big-company and less free wheeling. Monday-morning conference calls were established with the top 15 executives, during which the business results and promises made the previous week are discussed to emphasize accountability. Also, information was shared about operations, customers, markets, and competitive conditions.  

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Despite his air of easy-going confidence, Jeffrey R. Immelt admits to two fears: that General Electric will become boring, and that his top people might act like cowards. That's right: cowards. He worries that GE's famous obsession with bottom-line results—and the tendency to get rid of those who don't meet them—will make some execs shy away from taking risks that could revolutionize the company.

Immelt, 49, is clearly pushing for a cultural revolution. For the past three and half years, the GE chairman and CEO has been on a mission to transform the hard-driving, process-oriented company into one steeped in creativity and wired for growth. He wants to move GE's average organic growth rate—the increase in revenue that comes from existing operations, rather than from deals and currency fluctuations—to be at least 8 percent from about 5 percent over the past decade. Under his former boss, the renowned Jack Welch, the skills GE prized above all others were cost-cutting, efficiency, and deal-making. What mattered was the continual improvement of operations. Immelt hasn’t turned his back on the old ways. But in his GE, the new imperatives are risk-taking, sophisticated marketing, and above all, innovation.

Immelt has plans for making the ingrained GE culture sizzle with bold thinking and creative energy. To start, he has banished some long-cherished traditions and beliefs. Immelt has welcomed outsiders into the highest ranks. He is pushing hard for a more global workforce that reflects the communities in which GE operates. Immelt has also encouraged his homegrown managers to become experts in their industries rather than just experts in managing. He’s diversifying the top ranks and urging his lieutenants to stay put and make a difference where they are.

In true GE fashion, Immelt has engineered a quantifiable and scalable process for coming up with money-making “eureka!” moments. The members of the Commercial Council hold phone meetings every month and meet each quarter to discuss growth strategies, think up new ways to reach customers, and evaluate ideas from the senior ranks that aim to take GE out on a limb. Business leaders must submit at least three “Imagination Breakthrough” proposals per year that ultimately go before the council for review and discussion. The projects have to take GE into a new line of business, geographic area, or customer base. And each one has to give GE incremental growth of at least $100 million.

The GE chief is tying executives’ compensation to the managers’ ability to come up with ideas, show improved customer service, generate cash growth, and boost sales instead of simply meeting bottom-line targets. Twenty percent of bonuses will come from meeting pre-established measures of how well a business is improving its ability to meet customer needs. Risking failure is a badge of honor at GE these days.

The pressure to produce at the company could not be more intense. Many of the company’s 307,000 workers weren’t exactly hired to be part of a diverse, creative, fleet-footed army of visionaries who are acutely sensitive to customers’ needs. “These guys just aren’t dreamer types,” says one consultant who has worked with the company. “It almost seems painful to them, like a waste of time. Even insiders who are openly euphoric about the changes under Chairman Jeff admit to feeling some fear in the depth of their guts.”

A summary of how Immelt is trying to shift the GE mindset is as follows:

- **Pay.** Link bonuses to new ideas, customer satisfaction, and sales growth, with less emphasis on bottom-line results.
- **Risk.** Spend billions to fund “Imagination Breakthrough” projects that extend the boundaries of GE.
- **Experts.** Rotate experts less often, and bring in more outsiders to create industry experts instead of professional managers. (Management skills are still vital, but they should be combined with industry expertise.)

(Continued)
A suggestion in relation to organizational culture is to find employment where you fit the culture, or quickly adapt your values and behavior to create a fit. For example, if the culture emphasizes data-driven decision making and a highly disciplined approach to management, act in this manner to survive and prosper.

**Managing Change**

To meet their objectives, managers must manage change effectively almost daily. Change in the workplace relates to any factor with an impact on people, including changes in technology, organization structure, competition, human resources, and budgets. The following description of managing change contains six components: (1) change at the individual versus organizational level, (2) a model of the change process, (3) resistance to change, (4) gaining support for change, (5) bringing about planned change through Six Sigma, and (6) the DICE framework for successful change management. Knowledge of these components helps in managing change that affects oneself and others.

**Creating Change at the Individual Versus Organizational Level**

Many useful changes in organizations take place at the individual and small group level, rather than at the organizational level. Quite often individual contributors, middle-level managers, and team leaders identify a small need for change and make it happen. For example, a supermarket manager observed that several meat department workers did not understand fractions. He therefore suggested that each supermarket should have a designated “fraction trainer” who would assist meat workers who could not work with fractions.

One study researched the effective change brought about by individuals in a variety of organizations. Each of the more than 100 participants was identified as a “mover and shaker,” someone who brought about constructive change. Constructive change included, for example, modifying a software product so as to open new markets. A common characteristic of these people who brought about change was a greater focus on results rather than
on trying not to offend anyone. At the same time, they concentrated more on exerting individual initiative than on blending into the group.35

Change at the organizational level receives much more attention than the small, incremental changes brought about by individuals. One of these major changes has already been described: changing the organizational culture. Later we describe how Six Sigma changes an organization. Change at the organizational level can be regarded as change in the fundamental way in which the company operates, such as moving from a government-regulated utility to a competitive organization.

The Unfreezing-Changing-Refreezing Model of Change
Psychologist Kurt Lewin developed a three-step analysis of the change process widely used by managers to help bring about constructive change.36 Many other approaches to initiating change stem from this simple model illustrated in Exhibit 8-11. Unfreezing involves reducing or eliminating resistance to change. As long as employees oppose a change, it will not be implemented effectively. To accept change, employees must first deal with and resolve their feelings about letting go of the old. Only after people have dealt effectively with endings can they readily make transitions.

Changing, or moving on to a new level, usually involves considerable two-way communication, including group discussion. According to Lewin, “Rather than a one-way flow of commands or recommendations, the person implementing the change should make suggestions. The changee should be encouraged to contribute and participate.” Refreezing includes pointing out the success of the change and looking for ways to reward people involved in implementing the change.

Resistance to Change
Before a company’s managers can gain support for change, they must understand why people resist change. People resist changes for reasons they think are important, the most common being the fear of an unfavorable outcome, such as less money or personal inconvenience. People also resist change for such varied reasons as not wanting to break well-established habits. Change

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may also be unwelcome because it upsets the balance of an activity, such as the old system of in-person meetings versus video conferencing.

Personality factors also contribute to resistance to change. For example, a rigid person might be more naturally disposed to maintaining the status quo. Workers who feel they lack the skills to deal effectively with the change, such as working in a team rather than individually, will sometimes resist change. Even when people do not view a change as potentially damaging, they may sometimes cling to a system they dislike rather than change. According to folk wisdom, “People would rather deal with the devil they know than the devil they do not know.” Workers may also resist change based on weaknesses in the proposed changes that may have been overlooked or disregarded by management. For example, managers might not be aware of how upset many customers would be when a voice recognition system replaces live customer-service agents. Because workers have more contact with customers, they might predict the customer dissatisfaction.

Gaining Support for Change

Gaining support for change, and therefore overcoming resistance, is an important managerial responsibility. A study investigated how organizational change in 32 different public and private organizations affected individual’s commitment to the change and their broader commitment to the organization. One of the conclusions reached was that long-term benefits of change occur only when employees actively work to support the change and are aligned with the organization’s goals and values.37 Here we look at six techniques for gaining support for change.

1. **Allow for discussion and negotiation.** Support for change can be increased by discussing and negotiating the more sensitive aspects of the change. It is important to acknowledge the potential hardships associated with the change, such as longer working hours or higher output to earn the same compensation. The two-way communication incorporated into the discussion helps reduce some employee concerns. Discussion often leads to negotiation, which further involves employees in the change process.

2. **Allow for participation.** To overcome resistance to change, allow people to participate in the changes that will affect them. In applying this concept, a manager can allow employees to set their own rules to increase compliance. A powerful participation technique is to encourage people who already favor the change to help in planning and implementation. These active supporters of the change will be even more strongly motivated to enlist the support of others. Participation is also useful because it gives the manager additional input into developing a careful plan for the change, including implementation.

3. **Point out the financial benefits.** Given that so many employees express concern about the financial effects of work changes, it is helpful to discuss these effects openly. If employees will earn more money as a result of the change,

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this fact can be used as a selling point. For example, a company owner told his employees, “I know you are inconvenienced and upset because we have cut way back on clerical support. But some of the savings will be invested in bigger bonuses for you.” Much of the grumbling subsided.

4. **Avoid change overload.** Too much change too soon leads to negative stress. Too many sweeping changes in a brief period of time, or simultaneous changes, also causes confusion, and it leads to foot dragging about the workplace innovation. When change is perceived as excessive, employees often focus too much on the change and not enough on primary tasks such as the product, service, or customers. Explaining how the large-scale changes fit the company strategy can sometimes lessen the sting of change.  

5. **Allow for first-hand observation of successful change.** Support for change can sometimes be overcome by giving workers an opportunity to see first-hand an example of a model of the change in question. Suppose, for example, top management decides that the company should shift to a virtually paperless company without secretarial assistance. Many managers and staff professionals would be quite skeptical. If feasible, it would be helpful for a small team of company skeptics to visit a company that has become a paperless office. Seeing is believing, and it also helps overcome resistance to change.

6. **Get the best people behind the program.** A powerful tactic for bringing about change is to enlist the cooperation of people whom others in the organization respect, and who are flexible. When Eastman Kodak Company chief executive Antonio M. Perez wanted to move the company more quickly into digital and away from film products he assembled a group of “rebels” (talented people who were skeptical by nature). He asked them to make suggestions on how the company could be improved, including coming up with new digital services and commercializing existing technology. Once these people thought they were part of the change, they spread the word throughout the organization that Perez was a good leader. Based on the credibility of the rebels, their opinions influenced many others.

The above techniques for overcoming resistance to change are more likely to be successful when the manager has a good working relationship with staff members, including being trusted. For example, allowing for discussion and participation is less likely to be perceived as manipulation when the manager is trusted.

**Six Sigma and Planned Change**
The shift to a more quality-conscious firm can be classified as a total systems approach to organization change. Having high-quality goods and services is considered a necessary minimum to compete effectively. Most customers today require high-quality standards from vendors. One such standard is...
Six Sigma, or 3.4 errors in 1 million opportunities. (The figure is derived from the area under the normal curve from \(-6\) to \(+6\) standard deviations from the mean.) A number of organizations formalized this quality standard as part of company-wide programs for attaining high quality. With capital first letters, **Six Sigma** refers to a philosophy of driving out waste and improving quality and the cost and time performance of a company. Three examples of companies with Six Sigma programs in some or all their divisions are GE, the Vanguard Group (investment management), Dow Chemical, and Xerox.

Six Sigma is regarded as a data-driven method for achieving near-perfect quality, with an emphasis on preventing problems. The focus is on identifying, quantifying, and eliminating errors in business processes. Six Sigma emphasizes statistical analysis and measurement in design, manufacturing, and the entire area of customer-oriented activities. Decision making becomes heavily based on numbers. Six Sigma also contains a strong behavioral aspect, with a focus on motivating people to work together to achieve higher levels of productivity. The system creates specialized positions in the company instead of placing additional responsibility on already overburdened managers and specialists. Employees chosen to be “black belts” or Six Sigma specialists work full time as a Six Sigma project leader. Six Sigma teams carry out most of an organization’s quality improvement efforts. Nevertheless, everybody in the company is supposed to be involved to some extent in the change effort. 41 As with all programs of organizational improvement, top management commitment is vital.

An example of the application of Six Sigma to fix a quality problem took place in a manufacturing unit of Xerox. Software for translating technical manuals into foreign languages could not deal with some of the engineering jargon. Identifying and eradicating the problematic phrases led to more rapid translations, fewer errors, and savings of up to $1 million. 42

Six Sigma, as with other quality programs, can help an organization achieve reliable products and services. However, the program must fit into the company culture. Companies more attuned to Six Sigma are those where the culture emphasizes discipline and measurement, such as Xerox and Pitney-Bowes. However, Six Sigma is less likely to be accepted in a more free-wheeling and less disciplined culture such as a large advertising agency. A concern about pushing too far with Six Sigma is that it sometimes takes away from the innovation and customer relationships partially because of its heavy emphasis on measurement and paperwork (or electronic work). 43

**The DICE Framework for Successful Change Management**

New approaches to managing change in organizations continue to evolve. One such approach is proposed by consultants Harold S. Sirkin, Perry Keenan, and Alan Jackson, who studied change initiatives at 225 companies. 44 They

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found a consistent correlation between success in these programs and four objective factors, referred to collectively as the DICE framework.

D. Project duration refers to how long the project takes to complete or the time between project reviews. A project might be an improved approach to product development. A successful project should not drag on too long. If the project is of long duration, frequent reviews are more likely to contribute to successful change than are infrequent reviews.

I. Integrity of performance refers to the capability of project teams, with talented teams being more able to facilitate successful change—a finding which will not surprise an experienced manager.

C. Commitment of senior executives and staff emphasizes that top-level management as well as others involved must want the change to take place. A good example here is Six Sigma. Unless top management really wants and values quality improvement, not much improvement in quality and work processes is likely to be sustained. At the same time, workers throughout the organization must be committed to making the process improvements indicated by Six Sigma.

E. Effort refers to the additional effort required of employees directly affected by the change. A successful change initiative requires that employees dig in and push for the changes to work, such as a new self-service benefits system using kiosks or going online. Bringing about change requires effort beyond what is required for the usual work.

The consultants developed a formula to calculate the DICE score, with Commitment being divided into top-management commitment (C₁) and local-level commitment (C₂). The formula is: DICE Score = D + (2 × I) = (2 × C₁) = C₂ + E.

In the 1(high)-to-4(low) scoring, the formula yields overall scores that range from 7 to 28. The lower the score, the better—with scores between 7 and 14 indicating the best chance of a new project succeeding. Although the authors of this approach refer to DICE as the hard side of change management, it really deals with the soft side of bringing about change—getting talented and committed people to invest in a change project, and giving them feedback as they go along.
Describe the bureaucratic form of organization and discuss its advantages and disadvantages.

The most widely used form of organization is the bureaucracy, a multilevel organization in which authority flows downward and rules and regulations are carefully specified. Bureaucracies can be highly efficient organizations that are well suited to handling repetitive, recurring tasks. Also, a bureaucracy fits the human need for order and security, among other needs. However, they may be rigid in terms of handling people and problems, and decision-making delays are frequent in bureaucracies.

Explain the major ways in which organizations are divided into departments.

The usual way of subdividing effort in organizations, particularly in bureaucracies, is to create departments. Three common types of departmentalization are functional, geographic, and product–service.

Describe three modifications of the bureaucratic structure.

The matrix organization consists of a project structure superimposed on a functional structure. Personnel assigned to the projects within the matrix report to a project manager, yet they report to a functional manager also. Flat organizations have fewer layers than traditional hierarchies, and are often the result of downsizing. They are created for such purposes as reducing human resource costs and speeding up decision making. Downsizing can also be looked upon as a way of simplifying an organization to make it less bureaucratic. Unless downsizing is done carefully, it can backfire in terms of increasing efficiency. By outsourcing, a company can reduce its need for employees and physical assets, and associated payroll costs. Outsourcing is part of globalization but is also part of the organization structure by having other companies perform part of your work. Homeshoring, or having customer-service work performed in workers’ homes, is growing rapidly.

Another approach to organization structure is to organize horizontally, or for a group of people to concern themselves with a process, such as filling an order or development of a new product. Team members focus on their purpose rather than their specialty, and take collective responsibility for customers. Switching from a task to a process emphasis can often be done through reengineering.

In addition to the formal structures, organizations also have informal structures that consist of personal relationships and networks to accomplish work. Information technology facilitates communication in all types of organization structures.

Identify key factors that influence the selection of organization structure.

The most effective structure depends on four key factors. The organization’s strategy and goals are the most influential factor. High technology favors a flexible structure, whereas low technology favors bureaucracy. Large size often moves a company toward bureaucracy. Finances influence structure because flatter structures lower costs. An unstable environment favors a flexible structure.
5 Specify how delegation, empowerment, and decentralization spread authority in an organization.

Delegation is assigning formal authority and responsibility for accomplishing a task to another person. Delegation fosters empowerment. The manager remains accountable for the result of subordinates’ efforts. Effective delegation includes assigning duties to the right people and obtaining feedback on the delegated task. Decentralization stems from delegation. It is the extent to which authority is passed down to lower levels in an organization. Decentralization sometimes refers to geographic dispersion. Although units may be decentralized and autonomous, in some organizations these units cooperate with each other for the common good.

6 Identify major aspects of organizational culture.

The organizational culture is shaped by such forces as the values and personality of the founder, the attitudes of top-level managers, society, and the industry. Six key dimensions of organizational culture are values, relative diversity, resource allocation and rewards, degree of change, a sense of ownership, and the strength of culture. Employees learn the culture primarily through socialization. Culture has important consequences and implications for factors such as competitive advantage, productivity, quality, and morale. Top management is responsible for shaping, managing, and controlling culture. Although culture is slow to change, the manager can take positive steps to being about change. The manager can act as a role model, impose a new approach through edict, reward behaviors that fit the desired cultural values, select the right people, and conduct training programs and conference calls to bring about the desired culture.

7 Describe key aspects of managing change, including gaining support for change, and the DICE framework for successful change management.

Change can take place at the individual and small group levels as well as at the organizational level. A model of change suggests that the process has three stages: unfreezing attitudes, followed by attitude change, then refreezing to point out the success of the change. People resist change for reasons they think are important, the most common being the fear of an unfavorable outcome.

Six techniques for gaining support for change are as follows: allow for discussion and negotiation; allow for participation; point out the financial benefits; avoid change overload; allow for first-hand observation of successful change; and get the best people behind the program. Six Sigma is an important organizational change strategy. It is a data-driven method for achieving near-perfect quality, and is administered by Six Sigma teams with the cooperation of most managers and executives.

According to the DICE framework for successful change management, four factors are essential: short project duration or frequent progress reviews; integrity of performance; commitment by top management and staff workers; and effort by all involved.
KEY TERMS AND PHRASES

Organization structure, 256
Bureaucracy, 256
Unity of command, 257
Departmentalization, 261
Functional departmentalization, 261
Geographic departmentalization, 261
Product–service departmentalization, 262
Project organization, 264
Matrix organization, 264
Flat organization structure, 265
Span of control, 265
Homeshoring, 267
Horizontal structure, 268
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Empowerment, 272
Decentralization, 274
Centralization, 274
Organizational culture (or corporate culture), 275
Subculture, 276
Socialization, 277
Six Sigma, 286

QUESTIONS

1. Over the years, large business organizations have steadily reduced the number of layers in the organization structure. What purposes has this profound change in structure served?

2. Small and medium-sized companies are often eager to hire people with about five years of experience working in a large, successful bureaucratic firm like IBM or General Foods. What might be the reason behind the demand for these workers with experience in a bureaucracy?

3. What is the basis for departmentalization in the last hospital you visited, read about, or saw on television? Explain the basis for your answer.

4. Describe the culture of a highly visible organization such as Wal-Mart or Starbucks. Perhaps make first-hand observations should you be visiting either one of these establishments. Use the dimensions of organizational culture to help you build your description.

5. What can first- and middle-level managers, as well as team leaders, do about shaping the culture of a firm?

6. Many career counselors believe that you are more likely to succeed in an organization in which you fit the culture. How could you determine before joining an organization whether you fit its culture?

7. How can a manager tell whether an employee is resisting change?

SKILL-BUILDING EXERCISE 8-A: Comparing Organization Structures

Work individually or in groups to find the organization structure at a local company or any type of organization. It may be possible to accomplish the tasks by e-mail and telephone. Whatever structure you find, provide some kind of explanation for why the particular structure is useful for the organization. For example, a hospital would have a departmental structure such as “emergency room” and “ob-gyn.” The reason would be that the departments serve clienteles with radically different needs. Compare your organization structures in class, and see how many different types of structures were found.

SKILL-BUILDING EXERCISE 8-B: The Art of Delegation

Delegation is one of the most important managerial skills, yet delegation does not come easily to most people. For example, two major problems in delegating are (a) turning over an assignment to someone else and neglecting to check progress, or (b) turning over an assignment to someone else yet telling the person exactly how to perform the task, and (c) checking up on the person too frequently. The chapter section about delegation, empowerment, and decentralization presented suggestions for effective delegation that should be consulted.
to perform the exercise at hand. Your task is to delegate a work or personal-life task to somebody within the next ten days. Then reflect on what happened in terms of such factors as,

- How much difficulty did you have in getting the person to accept the delegation?
- How much checking up on the person did you need?
- Did the task get accomplished?
- What did you learn about delegation?

INTERNET SKILL-BUILDING EXERCISE: Analyzing an Organizational Culture

Every organization has a culture even if the organization has not developed a description of its culture. Search the Internet for several articles about one of your favorite companies, as well as the company Web site. Find at least three statements that describe its culture, such as “this is a highly disciplined organization where every worker keeps focused on the goal,” or “this place is a bunch of cowboys and cowgirls running wild.” Arrive at a tentative conclusion about the company’s culture, based on your findings.
Case Problem 8-A

Reshaping Microsoft

A few years ago a team of business columnists wrote the following commentary:

“Bill Gates is ending his day-to-day involvement with Microsoft and focusing on charity. Because the move offers a time to reflect, here is something Gates should ponder. His reputation as a software developer is assured. But wouldn’t breaking up his creation be the best way to secure his legacy?

“Sprawling companies are difficult to manage. Microsoft’s businesses stretch from its ubiquitous Windows software to videogame consoles to an Internet portal. Moreover, the company seems to have lost its touch. It has fallen behind Google in Web searching, and its latest operating system is severely delayed. Microsoft may be just too big for Chief Executive Steve Ballmer, or indeed anyone, to handle. Gate’s plan to step back may only intensify managerial problems.

“The company has three distinct businesses. Its operating systems are growing slowly, but produce tons of cash. Its suite of Office software products is in a similar position. Meanwhile, Microsoft’s other efforts are potentially fast growers, yet mostly burn cash. Separating the company into three business units, or more, would make them easier for mere mortals to manage.

“Moreover, divvying up the company would help to secure Gate’s reputation as a great philanthropist. He already plans to give away nearly the entirety of his fortune. Breaking up Microsoft would mean that he has more to give away. Value investors think Microsoft allocates the capital generated by its cash cows poorly. Growth investors think some of the company’s efforts, like cell phone-software production, are smothered in such a large organization. Both sets are unhappy, so Microsoft trades at a measly 16 times estimated earnings. A breakup could raise this multiple.

“Of course, the company is still earning billions of dollars and has significantly improved operating results. But Gates was violently against governmental efforts to break up his company in 2001. He may be less defensive if he comes to the decision himself, especially once he removes himself from the daily grind and potentially gains some objectivity.

“And there’s one last appealing point: No one would expect Gates to be involved in every offshoot company to the same degree. He can concentrate his interests on the parts of the business he likes best. And who knows, it may even bring out some youthful fire.”

Discussion Questions
1. What do you see as the advantages and disadvantages of breaking up Microsoft?
2. Draw an organization chart to reflect the new proposed Microsoft. Draw only the major organizational units and one organizational layer below. Compare your structure to those developed by other individual class member or teams of class members.

The faces at Coca-Cola haven’t changed much through the decades. The board is a tight-knit group of people whose average age is 67. Seven have served Coke for 20 years or more. The annual meeting in 2006 marked a turning point. The crowd the board faced was altogether different from the complacent gatherings of years past. The audience of roughly 400 people was an odd assemblage of simmering college students, angry water-rights activists, angrier labor-rights activities, dismayed employees, watchful plainclothes security, and white-haired shareholders bewildered by the stock’s 52 percent plunge from its high.

CEO Neville Isdell told the crowd, “Next month the Coca-Cola Co. will celebrate its 120th anniversary—120 years since someone paid a nickel for Doc Pemberton’s inspiration-in-a-glass at Jacobs Pharmacy. Today consumers invite us into their lives more than a billion times a day for enjoyment, fun, and refreshment. We understand, however, that what has sustained us these first 12 decades will not be sufficient for the future.”

When Isdell came out of retirement in 2004 to take over at Coke, he inherited a company that had utterly lost faith in itself, governed by a board that could not leave it alone. A social worker by training, he knew that a transition would take two years. During that time he repaired morale. He and his management team set out to understand how Coke’s world had changed—analyzing what beverages people drink and why and when they drink them—and to devise a new roadmap called the Manifesto for Growth. Coke would not diversify away from beverages, they decided. Rather, Coke would deliver on its promise to be a nonalcoholic beverage company with an expanding portfolio to meet consumer needs.

At this annual meeting Isdell declared the transition over. The new Coca-Cola, he promised, will innovate—as it did in the first quarter, launching new products with strange-sounding names like Tab Energy (diet energy drink) and Full Throttle Fury (a citrus-flavored energy concoction). The company has also created glow-in-the-dark aluminum bottles of Coca-Cola to sell at night clubs. “You’ll see better marketing and stronger connections with consumers,” he told the audience. Coke, he said, would be bold. “You’ll see some failures,” Isdell said. “As we take more risks, this is something we must accept as part of the regeneration process.”

For many years Coke had stayed defiantly rooted in the past, holding on to the belief that its business model was as good as gold: Make cola concentrate for pennies, then sell it for dollars through a global bottling system to a mass market that still pretty much drank what it saw on TV. When bottled water came along, one director called it a “low-margin road to nowhere.” The company was late to the game in sports drinks, energy drinks, and coffee, regarding them as low-volume distractions. Coke’s board nixed the acquisition of Gatorade, which was then bought by rival Pepsi. Coca-Cola depends on soft drinks for 80 percent of its total sales volume.

In an interview after the annual meeting, Isdell said, “I don’t believe we’ve done more in the past than dabble outside carbonated soft drinks. We have not been able to think creatively enough about sodas themselves. We’ve often chased volume to the detriment of the business.” Now his team is looking at sodas as “potential carriers of health and wellness,” searching for new, natural sweeteners, and trying to convince Coke and its bottlers that they can distribute 1,000 brands and packages when they think they can handle only 200. Isdell says part of this job has been to lead the board into this regeneration of the Coca-Cola company.

A key player in Coke’s planned transformation is Mary Minnick, the company’s head of marketing, strategy, and innovation. “There was a culture of politeness and consensus and talking around an issue, rather than taking it head-on,” she says. If Coke employees are upset by the change, too bad: “That’s one thing I won’t work on.”

To Minnick, growth means more than simply boosting sales of Coca-Cola Classic. An innovation involves more than repackaging existing beverages in slightly different flavors. Minnick is exploring new products as far afield as beauty and health care. If she accomplishes even half of what’s on the drawing board, she’ll usher in the greatest flowering of creativity in the company’s history.

Coke is still the most valuable brand in history, according to consultancy Interbrand, which measures how much a company’s brand drives its sales and profits. Yet the value of the Coke brand has declined 20 percent since 1999, to $67 billion, according to Interbrand. The
challenge of reversing this trend, of making Coke more exciting, innovative, and relevant, falls largely on Minnick’s shoulders. The marketing dynamo has helped bring a new sense of urgency to everything, from how the company advertises to how it develops new drinks.

Minnick’s top priority has been jump-starting Coke’s product development. Under her leadership, Coke has launched more than 1,000 new drinks or new variations of existing brands in a 12-month period, including a new male-oriented diet drink called Coca-Cola Zero, as well as a brisk-selling coffee-flavored cola called Coca-Cola Blak. But Minnick knows that, in the long run, new flavors and brand extension won’t be enough to make Coke a growth company again. So with the solid backing of Isdell, to whom she reports, Minnick is pushing to transform Coke from a soda-centric organization that was long content to offer “me-too” products in emerging categories to one on the cutting edge of consumer trends.

At a meeting of Coke’s top 200 global marketers in Istanbul, Minnick implored her troops to stop thinking in terms of existing drink categories and to start thinking broadly about why people consume beverages in the first place. The goal: to come to market with products which satisfy those needs before the competition does. An example might be a drink that is fortified with vitamins or nutrients that provide women with the same benefits as a facial scrub or cold cream.

In the future, Minnick says, the winners will be the beverage companies that develop breakthrough products that, more often than not, cross over traditional beverage categories—just as Red Bull did when it single-handedly created the energy drink segment. “Like Henry Ford said, ‘If I’d asked the consumer[s] what they wanted, they’d have said a faster horse,’” she told her staff in Istanbul.

Another one of Minnick’s initiatives has been to instill a culture of accountability in the marketing department and with the company’s ad agencies. “Historically, we had a culture where putting the hard issue on the table made some people uncomfortable,” she says.

In April 2007, Minnick took a position at a British private equity firm, Lion Capital, as a partner. A contributing factor to her decision to leave was being passed over for the position of chief operating officer.

Discussion Questions
1. Why does this story belong in a chapter that deals with organization change? Shouldn’t the Coke story be placed in a chapter exclusively about marketing?
2. In what ways does the Coca-Cola Co. transformation require changes in the attitudes of employees and in the organizational culture?
3. What advice can you offer Isdell Minnick, and her successor to make the Coca-Cola Co. even more successful?