PART I

The Broad Picture

CHAPTER 1

Introduction to Organization

WHAT THIS CHAPTER COVERS

This chapter begins with an explanation of the purpose and scope of this book. It then defines the key terms *organizing*, *organization*, and *organizations*. The following section introduces the components of organization. Some of these are structural in nature, some are concerned with key processes, while others define boundaries. The constituent components of organization are the parameters along which policy choices have to be made. These choices are fundamental to the differences between conventional and new organizational forms. They are also highly consequential because serious problems can arise from inappropriate organization.

Purpose and Scope of this Book

This book is about the organizational component in business success. Although it focuses on business companies, much of its content is also applicable to the many public and not-for-profit institutions that are also expected to organize themselves for delivering relevant services in an economic manner. The success of any company depends basically on two fundamental requirements: strategy and organization. If its organization is at fault, a company will not be able to deliver sufficiently on its strategy, however well conceived this might be. More than this, the formulation of a sound strategy in the contemporary business world relies on knowledge and insight being provided from all levels and units within a company. An inability to motivate and coordinate these inputs because of inadequate organization can prevent a good strategy from being formulated in the first place.

Superior organization offers one of the last sustainable sources of competitive advantage. The gains previously to be had from market protection, proprietary technology, and scale economies have become steadily eroded by trade liberalization, technology transfer, and the development of flexible production technologies. Most resources and technologies can either be acquired from the market or imitated. Organization, on the other hand, is an asset that each company has to develop to suit its needs and situation, and it cannot be bought off-the-shelf. The globalization of markets and value chains, competitive pressures, and the ever-shortening cycles of innovation place an increasing premium on the ability to organize a wide array of resources, especially human resources, so as to make speedy, intelligent, and coordinated moves in the competitive game.

We live in a challenging and dynamic time for organization. The conventional ways in which companies and other collective endeavors have been organized in the past are increasingly regarded as inadequate for twenty-first-century conditions. New forms are emerging that move away from many of the fundamental tenets of conventional organization. Despite the availability of some surveys and case studies,[1] the pace of practical experiment and innovation is outstripping the ability of most books to capture what is taking place. Any period of change and experiment is exciting, but its feverish nature can prevent cool appraisal. There has been a great deal of hype about the organizational revolution. The gurus have had a field day and much of the discourse on the subject has left considered evaluation way behind. It is therefore timely to review new organizational ideas and practices, compare them with conventional wisdom, and on this basis offer guidelines for practice.

Organization aims to present state-of-the-art principles and practice in the organizing of business activities. It consists of four main parts plus a conclusion. Part I provides necessary background and looks at the broad picture rather than specifics. The present chapter introduces the nature and contribution of organization. Chapter 2 examines the relevance for organization of major developments in the business environment – globalization, new information and communications technologies, the rise of information-intensive and knowledge-based competition, the growing numbers of knowledge workers, and the increasing social expectations being placed on business. The message conveyed by Part I is that new developments in organization can only be appreciated by reference to the changed context in which business now operates.

Parts II and III turn to the specifics of organizational form. The chapters in Part II focus on the internal aspects of organization, while those in Part III examine various networked forms of organization spanning traditional boundaries. Chapter 3 is concerned chiefly with hierarchy, a fundamental structural feature of organization. It considers downsizing and delayering, which are moves toward smaller and slimmer management structures. The attempt to reduce hierarchy is often accompanied by the greater use of teams, and teamwork also features in the following chapter as an important means of improving integration. Chapter 4 considers experience with organizing for better integration through the use of cross-functional teams and modern information and communication technologies. Control is the subject of Chapter 5, which is another fundamental aspect of organizing where new approaches have been developed to suit modern conditions. Chapter 6 examines reward policies and the contribution they make within the employment relationship to reconciling managerial requirements with employee needs. Chapter 7 recognizes the importance of pay within the spectrum of rewards and it pays particular attention to the choice of alternative payment systems.

The four chapters in Part III turn outward beyond the conventional boundaries of organizations. They discuss various arrangements that involve networking between firms and across national boundaries.[2] One of the main features of new organization lies in how it opens up these boundaries through outsourcing, virtual value chains, alliances, and the multinational corporation. These have led some commentators to speak of the "boundaryless organization." Chapter 8 examines outsourcing. Chapter 9 looks at the special, but increasingly significant, case of "virtual" organization based on e-commerce and similar strategies. Chapter 10 is concerned with the particularly challenging case of hybrid organization, when two or more partners form a strategic alliance on a formal basis such as a joint venture in which they invest equity, management, and other resources. Chapter 11 turns to the crossing of another kind of boundary, that of nationality. It considers the organizational challenges of managing across borders.

The chapters in Parts II and III are largely concerned with the structures and mechanisms that facilitate ongoing processes. These should permit, even encourage, a company to evolve successfully through adaptation and innovation. Successful evolution, however, requires further specific capabilities – those of managing change, learning, generating trust, and securing legitimacy for corporate governance. These abilities can be promoted in part by appropriate organizational policies, but they also rely significantly on the integrity and ethos of management. The chapters in Part IV examine each of these capabilities for evolving effective organizations in turn.

Chapter 12 identifies the policies and practices that facilitate major change in companies when events and trends require this to take place. Chapter 13 focuses on the impact organization can have on learning and knowledge creation within companies. Managers are coming to place increasing value on trust in business and employment relationships, and Chapter 14 identifies organizational policies that can promote such trust. Chapter 15 recognizes the growing social demands for a wider and more transparent corporate accountability and the relation that organization has to these.

In conclusion, Chapter 16 steps back from the detail of previous chapters to make sense of the varied picture of organization that they present. It does this by distinguishing the two faces of organization. One is as a set of arrangements for undertaking collective goal-directed activities in a cohesive and coherent manner. This is the side of organization that contributes to meeting strategic needs, and a consideration of how these needs are changing helps us to make better sense of present organizational forms. The other side to organization is a set of arrangements that distributes power, rewards, and personal well-being. If this aspect of organization is seen to be failing, it will have deleterious performance effects as well as calling the legitimacy of business into question. Some firms have taken organizational initiatives that address this problem.

Organizing, Organization, and Organizations

Virtually all the goods and services we consume come to us as a result of *organized* collective activities carried out within business *organizations* – "firms" or "companies." The institutions that mold our lives through education, health care, the law, politics, and religion are also all highly organized. The leaders of successful organizations generally attribute a significant part of that success to the quality of their *organization*. This use of similar terms to mean different things can be very confusing. It is important to distinguish between them at the outset.

Organizing is the process of arranging collective effort so that it achieves an outcome potentially superior to that of individuals acting or working alone. It almost always involves some division of labor, with different people or groups concentrating on different activities that then have to be integrated (coordinated) to achieve a successful result. Organizing also requires a degree of control, so as to monitor progress against original intentions and to make appropriate adjustments along the way. If more than a small group of people are involved, and if the organized activity is a continuing one, a form of hierarchy normally develops such that one or more people take the lead in formulating instructions, providing coordination, and controlling results. These manifestations of organizing, taken together, are commonly termed *organization*, as in "the organization of the XYZ company." This term implies that the form of organizing used by a company persists in a recognizable form, at least for a while.

So essential is being organized to companies or institutions that it is quite usual to refer to such bodies as "organizations" – shorthand for organized bodies or systems. This term refers to all the attributes of the collective body taken as a whole, which can lead to a great deal of confusion for two reasons. First, an entity such as a company has attributes that are not strictly organizational in nature but which can nevertheless influence its behavior and performance. These include its history, nationality, leadership, and reputation. The second reason follows from the first: *an organization* will have its own specific character and identity, whereas *the organizational attributes* with which this book is concerned apply across different companies or institutions.

This book is about organization and organizing, meaning the ways in which activities and the people performing them are organized in firms or other collective bodies. In the past, this focus was often called "organizational design." The term has fallen out of favor because it implies the conscious, rational pre-planning of formal organizational arrangements, whereas contemporary thinking places greater emphasis on a more adaptive, emergent process of organizing to suit ever-changing circumstances. Indeed, there can be fortuitous and unintended aspects of organization, some of which may turn out to be very constructive. This book, however, concentrates on forms of organization that are purposive in the sense that they result from conscious intention and reflection.

Components of Organization

Organization has structural, processual, and boundary-defining facets. These are listed in Box 1.1. Among the *structural* components of organization, there is a distinction between "basic structure" and "procedures." A basic structure distributes responsibilities among the members of a company. Its purpose is to contribute to the successful implementation of objectives by allocating people and resources to necessary tasks and designating responsibility and authority for their control and coordination. This division of labor has both vertical and horizontal aspects. Its vertical aspect provides for a specialization of discretionary decision-making responsibilities through specifying levels in a *hierarchy*. Hierarchies also usually depict reporting lines for instructions and feedback of results, though these can sometimes jump across levels. The horizontal aspect provides for a *specialization* of tasks according to functional specialty, business focus, or geography.

Basic structure takes the form of organization charts, job descriptions, and the constitution of boards, committees, working parties, task forces, and teams. A basic structure can

BOX 1.1 COMPONENTS OF ORGANIZATION

Structural
Basic structure
Hierarchy: levels, layers, authority, reporting lines
Specialization: roles, groups, and units
Procedures
Rules and standards
Schedules
Systems
Processual
Integration/coordination
Control
Reward
Boundary-crossing
Outsourcing
Virtual organization
Alliances
Organizing across borders

only provide a general blueprint or constitution. It is wise to keep it rather general, with scope for local adjustments, because it is a considerable upheaval to change it. In fact, as we shall see, the more often circumstances change, the more such reliance on a given basic structure has to yield to a more flexible approach, often using task forces and teams. These bring people together from across the structure to focus effort toward specific problems and new projects as the need arises.

Procedures focus more closely on behavior. The intention of rules and standards is to clarify to people what is expected of them. For example, standing orders can set out the ways in which tasks are to be performed. In addition, or perhaps as an alternative when the manner of doing tasks cannot be closely defined, standards of performance can be established that incorporate criteria such as output level or quality of achievement. These would normally be accompanied by procedures for performance review. It is also usual to have other procedures for handling problems that are recurrent and whose parameters are reasonably well known. Many examples occur within the sphere of human resource management, where the principle of equity requires consistency in the way people are treated. Standard procedures are commonly used for recruitment and selection, appraisal, the determination of rewards, and grievance handling.

Much work of a routine or recurrent nature can be ordered efficiently through the use of schedules. Reporting of information on performance, drawing up of accounts, plant maintenance, and personal appraisals are among the typical activities that can be planned and conducted according to set schedules. The use of schedules is intended to improve the efficiency of these activities by allocating time and other resources to be available when required.

Systems are more complex and comprehensive than either rules or schedules. In fact, they usually incorporate both. They are a set of procedures for the performance of connected activities that constitute a particular task, and often employ technology in support. Systems for inventory control, knowledge management, and the communication of transactional requirements within organized networks of firms are examples that have become particularly significant in recent years. Systems generally rely on the collection, analysis, and distribution of information among different units within a company or business network. For them to work effectively, it is essential to have protocols (rules) that ensure the standardization of such information.

There are three key *organizing processes*: integration, control, and reward. The purpose of each is to help achieve a configuration of mental and physical effort that leads to good corporate performance. *Integration* is concerned with ensuring that there is adequate coordination between the different but complementary activities that create collective value. Organizational mechanisms aimed at strengthening integration range from simple arrangements for the people concerned to meet periodically to complex, multidimensional structures in which the contributions of specialized units are coordinated through a matrix arrangement according to customer, process, regional, or other requirements.

Control involves setting goals, implementing them, and monitoring their attainment. Control "systems," in the narrow sense of information-processing support for disseminating what is required of people and providing feedback on results, follow a standard principle. It will become apparent, however, that there is considerable choice and variation in the broader strategies of control open to management. Some of these strategies require elaborate organizational support, while others rely more on people's "self-control" through their understanding and acceptance of collective objectives.

Reward is a process fundamental to engaging the motivation among members of a company to contribute positively to the achievement of its goals. The design of reward systems is part of management's organizing toolkit. There are broadly two main requirements that reward systems are expected to meet. One is to attract people with the required abilities and skills to join a company. The other is to encourage people to offer a high degree of commitment to their employment, including a willingness to accept innovation and other change. Many issues arise with the design of reward systems, especially around the concept of performance-related pay.

The *boundary-crossing* aspects of organization have become more prominent with the growing flexibility and permeability of the boundaries to firms. In the past, much of the concern in organizing was directed at drawing lines of exclusion, both between units within companies and between companies themselves. Jobs were defined in ways that identified their exclusive areas of responsibility and authority. Similarly, overlaps between larger units such as departments and divisions were considered to be potentially confusing and wasteful. Outsourcing major activities and entering into alliances with other organizations was often regarded with suspicion on the grounds of jeopardizing control and independence.

As we move into the future, organizational practice is shifting in the other direction. Companies are moving away from the distribution of personnel within strongly bounded roles and units, with the idea of controlling and focusing their efforts in an efficient manner. There is much more emphasis today on managing relationships between roles and units so as to achieve a creative and proactive synergy between them – hence the greater attention now being paid to integration. On the external side, companies are also moving away from valuing exclusivity and are instead prepared to cross, even break down, boundaries between themselves. They are entering into various arrangements that network them with other firms. More activities are being *outsourced* to subcontractors in order to focus on core capabilities and benefit from the advantages in cost and expertise enjoyed by external specialist firms. Some value chains, bringing together various contractors into networks, are being organized along virtual lines. *Virtual organization* offers advantages that suggest it will come into progressively greater use. There is also a rising number of *alliances* between firms in order to secure global market coverage, to resource innovation, and to access sources of low-cost production. Many alliances are formed between firms from different countries and this is part of the trend to internationalize the scope of business value chains.[3] The multinational corporation (MNC) has become a major, and in many sectors the dominant, organizational form. Together with the many small and medium-sized enterprises (SMEs) that are also internationalizing, MNCs face the challenge of *organizing across borders*. They may choose to accomplish this either within their own structures or through alliances with other firms.

Organization aims to provide a set of framework provisions within which the processes necessary for effective collective activity can proceed. It can, however, only make a partial contribution to the effectiveness of those processes. An assumption shared by those who advocate the adoption of new organizational forms is that in the future we have to rely less than before on "organization," as framework, and more on "organizing," as process. Their argument is that frameworks focus on formalized roles and rules articulating knowledge gleaned from the past, whereas we now need adaptive and innovative processes based on intensive communication and knowledge sharing between people. In modern conditions of high change and turbulence, structures may well be obsolete before they are even implemented, and can inhibit the flexibility on which the survival of companies increasingly depends. Self-generated spontaneous processes that allow for rapid and innovative adjustments to new circumstances are seen to be appropriate instead. In ways such as these, sharp distinctions are being made between conventional and new organizational forms. The evidence presented in later chapters will clarify whether such a wholesale dismissal of the conventional approach to organization is justified.

Organizational Choices

The contrasts that are drawn between conventional and new forms of organization serve to highlight the basic choices that are inherent in each component of organization. These are summarized in Table 1.1, and I shall discuss them in turn.

Hierarchy

Many writers on organization have shown a marked aversion toward hierarchy and its supposedly deleterious effects, which are discussed in Chapters 3 and 16. Despite this, hierarchy continues to provide the backbone of almost every company in every part of the world. Key choices in the design of hierarchies concern the number of layers they should contain, whether decision-making authority should be centralized at their apex or distributed down their levels, and whether people should have single or multiple upward reporting lines (the latter is known as "matrix organization").

Table 1.1 Basic organizational choices

Component of organization	Choice
Hierarchy:	
Levels/layers	Tall versus flat
Authority	Centralized versus decentralized
Reporting lines	Single versus multiple
Specialization	Which logic of specialization: function, process, product, region?
	Specialized roles versus general roles
	Clear role definitions versus fuzzy role definitions
Hierarchy and specialization	Specialized hierarchies versus use of mixed teams
	High versus low job autonomy and content
Rules and schedules	Mandatory versus discretionary
	Rule-based orientation versus relationship-based orientation
Systems	Oriented toward reducing uncertainty versus emphasis on signaling the need to adapt
Integration	Vertical versus horizontal
	Degree of formalization: direct contact, liaison roles, task forces, coordinators, teams, matrix structures
Control	Which strategy of control: personal, bureaucratic, target-based, cultural, or HRM-based?
Reward	Criteria: hierarchical level, performance, market price
	Individual versus group-based
	Frequent versus periodic
Boundary crossing and networking	Intensity of network
	Role of contract versus trust
	Short-term versus long-term links
	Dominated versus equal-partner networks
	Virtual or non-virtual?
Outsourcing	Outsourcing value-chain activities versus peripheral support activities only
Alliances	Equity versus contractual
	One-partner-dominated versus integrated management
Organizing across borders	Global versus local emphasis
	Basis of integration: business, function, or region?

Specialization

There are two basic choices for specialization. The first assumes that, except in a very small unit, it will be efficient to have some degree of specialization in what people do. The question, then, is on what basis to specialize? There are several competing logics here. People can specialize according to the expertise they possess; when groups of people or departments are organized on this basis we commonly speak of a "functional organization." A related principle is that people concerned with the same process, perhaps employing the same plant or equipment, should be organized to work together. Another, contrasting, logic is to specialize people according to the product or service to which they are all contributing. In a company with several product lines or businesses, this logic can give rise to the so-called "multidivisional form" based on a range of product divisions. Another logic of specialization is by country or region, which may be particularly called for when the political, cultural, or other characteristics of geographical entities are distinctive.

The second choice is how far to take the principle of specialization itself. One approach is to define roles in a highly specialized way, so as to allow the people in them to develop the maximum of expertise and focused experience. The alternative is to define them in general terms, so as to encourage the capability and willingness among people to switch flexibly between different tasks as the situation requires. Linked to this choice is another one, namely whether to rely on clear role definitions or to allow these to be fuzzy and open-ended. The same questions will also have to be raised for groups, units, and departments within a company. Should these be highly specialized and self-contained, or should they be more generalist, even with some overlap and rotation between their members?

Hierarchy and specialization

Combining the choices on hierarchy and specialization identifies some of the major organizational configurations used in practice. For example, the level of discretion (reflecting centralization versus decentralization in hierarchies), taken together with the level of specialization, identifies different ways in which work can be organized, as illustrated in Figure 1.1.

		Discretion	
		High	Low
Specialization	High	**A** There is high reliance on professional expertise. Different professionals may have their own clients. Experts come together in teams or committees to generate and approve new initiatives that shape collective strategy.	**B** The company is organized into centralized specialized hierarchies. Within them, work is broken down into narrow jobs, with little or no rotation between them. People in these jobs are expected to work strictly to instructions laid down by management.
	Low	**D** People are organized into teams or work groups with little hierarchical distinction within them; sometimes the teams can decide on their goals and certainly how to attain them; their members are capable of working interchangeably.	**C** Examples of this organizational form can be found when the common factor among a range of tasks consists of basic physical effort. One example is a premises unit consisting of people who tend the company gardens for part of the day and clean offices at other times.

Figure 1.1 Different levels of discretion and specialization in the organization of work

Rules and schedules

One of the basic issues with rules and schedules is how far they should be made mandatory rather than discretionary. In some circumstances, when for instance legal regulations apply, rules have to be mandatory. In other cases, rules do not have this obligatory character, but instead derive from previous organizational experience and learning. Here it may be considered appropriate to adopt a more flexible approach to the use of rules by, say, encouraging people to replace them with new practices when they decide that existing rules are no longer functional.

This choice mirrors the contrast between a so-called "bureaucratic philosophy of organization" that favors the predictability of behavior stemming from an adherence to rules and the new philosophy that favors adaptation and innovation through relational dynamics. The latter perspective sees relationships leading to adaptation in a number of possible ways such as generating sensitivity to external changes through intensive networking, and the opening up of new opportunities through personal negotiation with parties outside the firm. Similarly, most innovation is seen to arise today through the intensive, interpersonal process of qualified minds working together to find new solutions. In neither case can much reliance be placed upon existing rules, which may hinder rather than foster change.

Systems

A similar choice arises in the use of systems. One possibility is to orient systems toward reducing uncertainty by screening out as aberrant any nonconforming information or behavior. An example would be a production system rooted in the principle of economic batch size that did not permit the inclusion of special, one-off orders. The problem is that often the special order heralds a major new opportunity. The other choice is to design systems that strongly signal exceptions or new information at a sufficiently high level to impinge on the perceptions of people who have a say in strategy formulation. This approach emphasizes the potential of systems for signaling a need to adapt.

Integration

One of the key organizational choices to be made about integration is whether to secure it through a top-down, vertical approach or through direct, horizontal communication and relationships between the people or units concerned. In a small company, which has only a few constituent departments, it may be quite sufficient for the general manager to whom they all report to ensure that there is the necessary degree of common understanding and integration between their activities. In a large, complex company, however, this vertical approach is very likely to break down. Rather than passing information up and down hierarchies, it now becomes much more effective to rely on direct communications and relations between different parts of the company to ensure collaborative working and problem solving.

Other factors also make a horizontal approach to integration more effective. Modern information and communications technologies, especially email, have removed many of the barriers to direct, horizontal communications previously imposed by differences in geography hand time. Another consideration arises from the needs of competition based on innovation today when relevant information and knowledge is dispersed among the people directly concerned and when quick results are called for. In this situation, it is more effective for them to exchange information directly and to ignite the sparks of creativity through direct interaction.

A further issue is whether to formalize the provisions for integrating activities and, if so, how elaborate these should be. The simplest way of organizing for integration is to facilitate direct contact between managers or employees who share a problem or need to exchange information. Progressively more elaborate (and costly) provisions are appointing people to act as liaisons with other groups or units, bringing people together in temporary task forces, appointing coordinators, and establishing cross-departmental teams or even more permanent matrix structures. Whichever use of formal arrangements is decided upon, there is usually merit in promoting integration through informal means as well, such as encouraging the wide circulation of information through email and the provision of shared social and catering facilities.

Control

Though the concept of control is essentially quite simple, its application is not. There are many different organizational possibilities for implementing control, which I have previously called "strategies of control."[4] Many factors are likely to bear on the choice between these strategies, including a company's culture and size, the tasks to be done, and the characteristics of people working for it. These are discussed in Chapter 5. Box 1.2 summarizes five different strategies of control that may be adopted, either singly or in combination.

Reward systems

The key choices to be made about the organization of reward systems concern the basis of reward, whether rewards are to be individual or group based, and how frequently rewards are to be given. Rewards can be based principally or exclusively on hierarchical level. Salaries are normally determined according to this principle. The justification for this lies in the claim that hierarchical level equates to the level of responsibility a person bears; cynics would point out that it also relates closely to the level of power a person commands within a company. Another basis for reward is performance achieved, though serious difficulties can arise in apportioning an individual's responsibility for performance, in distinguishing short- from long-term criteria, and in ensuring a reasonable stability in earnings. Another principle is to pay the labor market rate for the work to be done. This principle can create so-called "anomalies" for bureaucratically organized companies, as when Giles – the famous cartoonist for Express Newspapers in the UK – was reputedly paid more than the chief executive of his employing newspaper company. It is, however, in tune with those new forms of business that are organized on the basis of a network of market contracts involving self-employed associates, consultants, subcontractors, and other independent operators.

BOX 1.2 FIVE STRATEGIES OF CONTROL

Each strategy utilizes one or more of the features listed.

1 *Personal centralized control*
  - 1.1 centralized decision taking
  - 1.2 direct supervision
  - 1.3 personal leadership: founded upon ownership, charisma, or technical expertise
  - 1.4 reward and punishment reinforce conformity to personal authority

2 *Bureaucratic control*
  - 2.1 breaking down of tasks into easily definable elements
  - 2.2 formally specified methods, procedures, and rules applied to the conduct of tasks
  - 2.3 budgetary and standard cost-variance accounting controls
  - 2.4 technology designed to limit variation in conduct of tasks, with respect to pace, sequence, and possibly physical methods
  - 2.5 routine decision taking delegated within prescribed limits
  - 2.6 reward and punishment systems reinforce conformity to procedures and rules

3 *Output control*
  - 3.1 jobs and units designed to be responsible for complete outputs
  - 3.2 specification of output standards and targets
  - 3.3 use of "responsibility accounting" systems
  - 3.4 delegation of decisions on operational matters: semi-autonomy
  - 3.5 reward and punishment linked to attainment of output targets

4 *Cultural control*
  - 4.1 development of strong identification with management goals
  - 4.2 semi-autonomous working: few formal controls
  - 4.3 strong emphasis on selection, training, and development of personnel
  - 4.4 rewards oriented toward security of tenure and career progression

5 *Control through HRM*
  - 5.1 selection criteria oriented to desired personal and social characteristics
  - 5.2 use of appraisal and reward systems to reinforce desired performance
  - 5.3 training used to socialize as well as input new knowledge and skills

Source: Modified from John Child (1984), *Organization: A Guide to Problems and Practice*, 2nd edn, London, Harper & Row, p. 159.

Rewards can be specific to individuals or they can be group based. The most collective reward would be an equal, annual share of company profits. While this may help promote a sense of corporate identity, one can see that it is far removed from the level of contribution that any individual has made. It is also a highly periodic reward, with long intervals between payments. This is also likely to weaken the reinforcement effects of such rewards on people's behavior. The frequency with which rewards are granted is therefore another choice that has to be considered in deciding on the organization of reward systems.

Boundary-crossing and networking

Networking is a broad concept referring to a form of organized transacting that offers an alternative to either markets or hierarchies. It refers to transactions across an organization's boundaries that are recurrent and involve continuing relationships with a set of partners. The transactions are coordinated and controlled on a mutually agreed basis that is likely to require common protocols and systems, but do not necessarily require direct supervision by the organization's own staff.

Networking presents a number of organizational choices:

1 *The intensity of the network.* Possibilities range from outsourcing, where relations between a hub firm and its individual external contractors are confined to specific contracted activities, to a tightly-integrated alliance such as one between a set of technology developers in which most members work intensively with one another.
2 *Contract or trust?* Are the network relations to be based primarily on formal contract or do they involve long-term partnerships based on trust? This links to the third choice.
3 *Limited or long life?* Is the network intended to have a limited life, such as a consortium to build a particular infrastructure project, or greater permanency such as the system of suppliers that contribute to Dell Computers?
4 *Dominated or equal partner network?* Is the network to be dominated by a leading firm or to be one of more or less equal partners? In the former case, there will be a hub firm that decides which activities to carry out internally and which to outsource to network subcontractors. Dell, Toyota, and Benetton provide examples of a dominated network solution. In an equal-partner network, no single partner sets up and controls the network. The equal-partner approach flourishes in environments like Silicon Valley, where an entrepreneurial culture and ecology of intensive communications encourage the frequent reformation of new collaborative networks and limit the domination of major players.[5]
5 *How virtual?* To what extent is the network to be managed on a virtual basis?

Outsourcing

The key decision on outsourcing concerns which activities to contract out as services to be provided by other firms or individuals. The criterion normally applied is to preserve within the firm those activities that are regarded as "core." One consideration in determining which are core activities is that the company should possess a relative advantage in performing them, such as to provide greater net added value than if they were consigned to other firms. Another is that they are activities having a particular competitive value as strategic assets, e.g. proprietary brands, distribution systems, and research and development. It will be seen that companies vary considerably in the extent of their outsourcing – some only outsource peripheral support activities such as catering while others outsource significant parts of their central value chains.

Alliances

Outsourcing involves defining the activities to be undertaken within a company in relation to those performed externally and managing the connections between them. There is not usually any sharing of ownership or personnel, except perhaps people acting in a co-ordinative capacity. Alliances between companies can involve both a sharing of ownership and management, when they take the form of a new joint venture. Such alliances create truly hybrid forms of organization, and there has been considerable debate on how they are best constituted. One key decision is whether to base an alliance on shared equity rather than confining it to a purely contractual arrangement. In addition to the fact that the venture may require new capital investment, an equity basis is more open-ended with regard to the timing and scale of returns to the partners; it also gives them long-term rights to determine the venture's policy and management. The involvement of just a few, often only two, partners in equity joint ventures presents further fundamental choices for the way such ventures are to be organized and managed. Should, for example, one partner determine the venture's organization and supply its management? This would be in the interests of the venture's integration internally as well as with the partner that is providing key inputs in terms of brands, technologies, and/or expertise. Or, alternatively, should the partners jointly determine the venture's organization and staff its management? This would be in the interests of maximizing the learning and synergies between them, and helping to build a sound, trust-based relationship that could be applied to other ventures in the future.

Organizing across borders

Cross-border operations make greater demands on a firm's organization than purely domestic ones. These demands inevitably grow as an MNC becomes more differentiated, both geographically and in the range of products and services it offers. A fundamental issue in an international firm's strategy is how to balance and combine advantages of global integration with the need for sensitivity and responsiveness to the conditions in the different localities where it operates and for which it produces goods and services. This strategic choice has implications for the way the firm organizes its main activities in terms of how much autonomy it grants local operations, the basis on which it secures integration and synergy between them, and whether to centralize via support functions rather than decentralize into product divisions and regions. Many MNCs are attempting to combine the benefits of global integration with those of localization in what has become known as a "transnational" approach. This approach is one of the most significant arenas for experimentation with new forms of organization because its complexity strains the limits to conventional forms based on hierarchy and bureaucracy. To secure the combination of flexibility, innovation, and integration that is required, the new approach to MNC organization depends significantly on the effective management of internal networks and the support of a well-developed corporate culture.

There are clear interdependencies between these organizational choices, especially in respect of structure and process. If the decision is taken to lean in a particular direction on one aspect of organization, this will impact on decisions in other areas. For instance, if centralization and hierarchy are preferred, this is likely to favor personal and/or bureaucratic control strategies, vertical integration, and rewards primarily based on hierarchical level. If, on the other hand, decentralized teamwork is preferred, this may well favor target-based and cultural strategies of control, horizontal integration, and performance-based reward. While there are a great many possible combinations of organizational elements, certain configurations have greater internal consistency than others and are therefore more likely to be used.

Consequences of Deficiencies in Organization[6]

The organizational choices just reviewed clearly have ramifications for all parts of a company's activities, but it is not easy to get them right. It is therefore very common for problems to arise as the result of organizational deficiencies. It is worth considering some of these because they can serve as warnings to a company of the need to attend to its organization.

Certain problems arise time and again in struggling companies. Even at the best of times they can point to incipient dangers that have to be dealt with. Deficiencies in organization can play a part in exacerbating each of these problems. High on the list are (1) low motivation and morale, (2) late and inappropriate decisions, (3) conflict and lack of coordination, (4) a generally poor response to new opportunities and external changes, and (5) rising costs.

Motivation and morale

Motivation and morale may be depressed because:

1 Decisions appear to be inconsistent and arbitrary in the absence of standardized rules.
2 People perceive that they have little responsibility, opportunity for achievement, or recognition of their worth because there is insufficient delegation of decision making. This may result from too many layers of management and narrow spans of control. It can also signify an overspecialization of jobs.
3 There is a lack of clarity as to what is expected of people and how their performance is assessed. This could be due to inadequate job definitions, a poorly worked-out reward system, and poor communication of corporate vision.
4 People are subject to competing pressures from different parts of the organization due to an absence of clearly defined priorities, decision rules, or work programs.
5 People are overloaded, either because they are not encouraged to delegate or their support systems are inadequate. For example, too much time is taken in searching for necessary information because the company's IT and knowledge management systems are poorly organized.

Box 1.3 relates an example of how inconsistencies between the recognition of staff achievement and the reward offered to them can seriously damage motivation.

BOX 1.3 THE DEMORALIZING EFFECT OF AN INADEQUATE PERFORMANCE ASSESSMENT SYSTEM

Amy Wong* was a newly recruited MBA graduate of Chinese origin working in the training department of a large company. During her first year of employment, she designed and delivered three new programs on developing creativity and personal learning which participants found so useful that she was asked to repeat them several times. On her own initiative, she also arranged early morning "breakfast briefings" for divisional managers on doing business in China, which were also very well received.

Towards the end of her first year, Amy participated in a personal development meeting. The company required such meetings to be held annually. During the meeting, she discussed with her manager how she would like to build on her work and expertise during the coming year. Although this was not an appraisal meeting (the company did not have a formal appraisal system), her manager nevertheless talked about Amy's performance and expressed considerable satisfaction with it. Encouraged by what he said, and by the way her work had been received, Amy applied for an additional salary increment. Her case went to the company's pay review committee. Her manager was not a member of this committee, but submitted a strong recommendation in support of her case.

The committee turned down Amy's application for an additional increment. The reason it fed back to her was that she had been too short a time in her employment to be granted the increment. The committee was in fact under pressure to hold down salary increases because the company was experiencing a tight financial situation. Amy felt that the company was not recognizing her exceptional performance, and became more aggrieved when she found out that another graduate who acted as PA to the chief executive had been granted an additional increment for no obvious special merit. The experience prompted Amy to look for other employment and a competitor soon offered her a better-paid position.

Amy's resignation and signs of dissatisfaction among other professional staff prompted the company to look into its personnel procedures. It eventually realized that, by having a personal development system which inevitably dwelt on individual performance, but which was not linked to decisions on staff salaries, it was raising expectations that it often failed to meet in terms of rewards offered. Indeed, in cases like Amy's, it had allowed considerations other than staff performance to influence its decision.

*Name changed to protect identity.

BOX 1.4 IMPACT OF INTERNAL BREAKDOWN ON A COMPANY'S DECISIONS

A diversified engineering company had several different operating divisions located in the same area of an industrial city. It was experiencing a long-term decline in the demand for machine tools, which could no longer match competition from Asia. On the other hand, it was expanding its production of electronic control systems. The two categories of production were organized into separate divisions, each with their own HRM departments. The company's central HRM department saw its role as one of professional development, and therefore focused on the development and updating of HRM staff rather than on their everyday activities.

It was several weeks before the company discovered – as a result of a story in the local press – that its machine tool division had been making employees redundant, while the control systems division had been recruiting people with similar skills from the market. This breakdown in its internal information sharing had led the company into a set of inconsistent actions that were not only costly in themselves, but also damaged its reputation and image.

Decision making

Decision making may be delayed and lacking in quality because:

1. Necessary information is not transmitted on time to the appropriate people. This can result from an over-extended hierarchy.
2. Decision makers are too segmented into separate units and there is inadequate provision to integrate them.
3. Decision makers are overloaded due to insufficient delegation on their part.
4. There are no adequate procedures for evaluating and learning from the results of similar decisions made in the past.

Box 1.4 illustrates how inappropriate decisions can result from the failure to share information between different parts of the same company.

Conflict and lack of coordination

There may be conflict and a lack of coordination because:

1. There are conflicting goals that have not been structured into a single set of objectives and priorities. For example, people may be put under pressure to follow functional departmental priorities at the expense of product or project goals.

BOX 1.5 A PROBLEM OF CONFLICT AND LACK OF COORDINATION

A company had six sales groups and eighteen different plants. There was constant conflict between the production side, which wanted to limit the range of products in order to achieve a more economic level of output for each one, and the sales departments, which attempted to force production to comply with the customer's exact specifications regardless of the case for standardization. Conflict also arose between the different groups on the sales side, because each group tried to secure the earliest possible delivery date for its customers regardless of the system of priorities that the company had laid down. These priorities were intended to give preference to certain types of order, such as export, and to certain large and important customers. Some of the sales clerks had been recruited from production and they were able to organize preferential treatment for their "own" customers through informal deals with their friends in the production-scheduling unit.

Source: Adapted from A. J. M. Sykes and J. Bates (1962), Study of conflict between formal company policy and the interests of informal groups, *Sociological Review*, November, 313–327.

2 People are working out of step with each other because they are organized into separate units despite a high degree of interdependence between their activities.
3 The people carrying out tasks modify what they do in the light of changing circumstances, but there are no systems for ensuring that these changes are communicated to other parts of the organization.

Box 1.5 describes a case of serious conflict and breakdown in coordination. This example is elaborated further in Chapter 4, which focuses on issues of integration within organizations.

Changing circumstances

An organization may not respond innovatively to changing circumstances because:

1 It has not established specialized jobs concerned with forecasting and scanning the environment.
2 There is a failure to ensure that learning and innovation are mainstream activities backed up by top management through appropriate procedures to provide them with adequate priority, programming, and resources.
3 There is inadequate use of teamwork to bring together all the people who can bring relevant perspectives to bear upon new projects, in addition to purely technological solutions. These other perspectives include market potential, ease of manufacture, likely return on investment, and any relevant regulatory requirements.

BOX 1.6 A CASE OF MISDIRECTED INNOVATION

A major company in the field of computing and other office equipment made a significant investment in a brand new research center sited close to a leading research university. It recruited a highly qualified body of young, enthusiastic scientists and technical specialists to staff the facility. Over the center's first ten years, it generated a number of significant technological breakthroughs, none of which was, however, taken into commercial production by the company. Eventually, many of the research center's best brains left to join other companies. In some cases, their inventions and prototypes were then developed into new products that enjoyed a high level of success in the market.

Several factors contributed to this costly failure to commercialize the stream of inventions forthcoming from the company's research center. The center's self-contained organization and location over 2,000 miles from the company's headquarters and main production plants accentuated the sense of cultural distance and lack of a common identity between it and other units. It also meant that few projects enjoyed the understanding, let alone support, of senior corporate executives when the point came to decide on the investment required to bring them into production. Fearing to discourage creativity, the company did not involve non-scientists in new projects until they had reached quite an advanced stage. It did not therefore include commercial, production, and accounting specialists in project teams. As a result, the case for adopting new products on the grounds of scientific novelty was generally more convincing than that made for their market appeal, ease of manufacture, and value added.

Box 1.6 provides an example of a company that was failing to generate commercially successful innovative products.

Rising costs

Costs may be rising rapidly, particularly overheads, because:

1. The organization has a long hierarchy with a high ratio of "bosses" to "workers."
2. There is an excess of rules, procedures, and paperwork, distracting people's attention from productive work and requiring additional personnel to administer.
3. Some or all of the other organizational problems are present.

This list of symptoms can readily be converted into a simple but useful diagnostic tool to warn of possible design deficiencies in an organization. The form this can take is shown in Box 1.7.

BOX 1.7 CHECKLIST FOR SYMPTOMS OF ORGANIZATIONAL DEFICIENCIES

Read through the questionnaire and tick the questions (if any) for which you answer "yes" for (1) your organization as a whole and (2) your team or unit within it.

Symptoms	Your organization	Your team or unit
Do morale and motivation seem noticeably low?		
Do decisions seem inconsistent and arbitrary, without reference to rules or criteria?		
Are people unclear about what is expected of them and how their contribution might be assessed?		
Do people perceive they have too little responsibility and opportunity for achievement?		
Are individuals subject to competing pressures from different parts of the organization?		
Are people overloaded?		
Is decision making delayed and lacking in quality?		
Does vital information fail to reach decision makers in time?		
Are decision makers segregated in separate units with insufficient coordination of their activities?		
Are decision makers overloaded because they have failed to delegate sufficiently?		
Are there inadequate procedures for evaluating the results of similar decisions made in the past?		
Is there noticeable conflict and lack of coordination?		
Do individuals or groups have conflicting goals that are not in line with overall organizational objectives and priorities?		
Have opportunities been missed for coordinating people's activities by forming teams or other ways of ensuring liaison between them?		
Are systems lacking for ensuring that information on operational changes is communicated adequately to other parts of the company?		
Does the organization fail to respond innovatively to changing circumstances?		
Is it no one's special responsibility to monitor change that is going on outside the organization?		
Do innovation and the planning of change get inadequate support from the top?		

Is there inadequate coordination between the people who can identify new opportunities and those who might be able to develop ways of satisfying them (for example, between sales and R&D)?

Are costs rising (over and above inflation), especially in the administrative areas?
Does the organization have too many managers and too few people carrying out the work?
Is there too much procedure and paperwork, distracting people from productive work and requiring additional administrative staff?

SUMMARY

1 Organization is the product of "organizing," namely the process of arranging collective effort so that it achieves an outcome potentially superior to that of individuals acting or working alone. The term implies that the form of organizing used by a company persists in a recognizable form, at least for a while.
2 Superior organization offers one of the last sustainable sources of competitive advantage. It is an asset that each company has to develop to suit its needs and situation, and cannot be bought off-the-shelf.
3 The conventional ways in which companies and other collective enterprises have been organized in the past are increasingly regarded as inadequate for twenty-first-century conditions.
4 Organization has structural, processual, and boundary-defining facets.
5 Structure consists of a basic structure and procedures. A basic structure distributes responsibilities among the members of a company. Procedures focus more closely on behavior.
6 There are three key organizing processes: control, integration, and reward. The purpose of each is to help achieve a configuration of mental and physical effort that leads to good corporate performance.
7 The boundary-defining aspects of organization have become more prominent with the growing flexibility and permeability of the boundaries to firms. They arise in the organization of network arrangements such as outsourcing and alliances with other companies.
8 Choices arise for each of these facets of organization and their constituent components. These choices are highlighted in the contrasts between conventional and new forms of organization.
9 Organizational choices have ramifications for all parts of a company's activities, and it is not easy to get them right. Many problems can arise as the result of organizational deficiencies. Low motivation and morale, late and inappropriate decisions, conflict and lack of coordination, rising costs, and a generally poor response to new opportunities and external changes may all signal the presence of organizational failures.

QUESTIONS FOR DISCUSSION

1.1 In what key ways does organization contribute to business success?
1.2 Why is superior organization one of the last sustainable sources of competitive advantage?
1.3 What is the difference between organization as structure and organization as process?
1.4 In what ways is organization now extending beyond the legal boundaries of firms?
1.5 What are the key deficiencies that organization can suffer?

NOTES

1 See *Organization Science* (1999), focused issue on "Coevolution of strategy and new organizational forms," 10(5); Andrew M. Pettigrew and Evelyn M. Fenton (eds.) (2000), *The Innovating Organization*, London, Sage; John Child and Rita G. McGrath (eds.) (2001), special research forum on "New and evolving organizational forms," *Academy of Management Journal*, 44(6); Andrew M. Pettigrew, Richard Whittington, Leif Melin, and others (eds.) (2003), *Innovative Forms of Organizing*, London, Sage. Other discussions of new organizational forms include Paul DiMaggio (ed.) (2001), *The Twenty-First-Century Firm*, Princeton, NJ, Princeton University Press; Thomas W. Malone, Robert Laubacher, and Michael S. Scott Morton (eds.) (2003), *Inventing the Organizations of the 21st Century*, Cambridge, MA, MIT Press.

2 For a discussion of the various meanings given to the term "network" and forms of network organization see Grahame F. Thompson (2003), *Between Hierarchies and Markets: The Logic and Limits of Network Forms of Organization*, Oxford, Oxford University Press.

3 Pettigrew and Fenton (2000), pp. 39–40.

4 John Child (1973), Strategies of control and organizational behavior, *Administrative Science Quarterly*, 18(1), 1–17. John Child (1984), *Organization: A Guide to Problems and Practice*, 2nd edn, London, Harper & Row, chapter 6.

5 Homa Bahrami and Stuart Evans (1995), Flexible re-cycling and high-technology entrepreneurship, *California Management Review*, 37, pp. 62–89.

6 This section draws from John Child (1984) op cit., pp. 5–7.