CHAPTER EIGHT
Formal Structures

A: Main Teaching Points (by textbook section)

In general, this chapter examines needs for and functions of organizational structure. Structure is defined in terms of the responsibilities and relationships allocated to members. National culture is only one of the factors that may influence how structure is expressed in a particular organization.

8.1 Introduction

The introductory case demonstrates how an organization tries to respond to change by modifying its structure. In this case it attempted, unsuccessfully, to flatten the hierarchy by introducing new technology. Factors in the national culture constrained the effectiveness of the technology in this respect.

8.2 The functions of structure

Make clear to students that this chapter focuses on FORMAL structures; that is, structures designed and/or accepted by management. Typically, these are represented by organizational charts and policies. Informal structures, such as friendship and patronage relationships, are created by the participants themselves, and are not represented in official material. These are discussed further in chapter 9.

Structure is defined in terms of responsibilities and relationships. These are determined by needs to perform the tasks that are needed in order to achieve the strategic goals set by top management. A brief taxonomy of structural types is given. Make the point to students that in practice these are seldom expressed in pure form, and that most companies adopt from a range of types.

Most attention is paid to the matrix, the success of which may be influenced by both task and culture.

Subsection 8.2.5 introduces the notion of control. This is developed in later chapters, particularly in regards to relationships between headquarters and subsidiary (chapters 14 and 16) and IJV partners and projects (chapters 15 and 16). The notions of centralization and decentralization are also discussed further in these contexts. It is often assumed that headquarters benefits from imposing the greatest control possible, but in practice control always carries a price tag and the rewards may be negligible. Indeed, over-detailed control may have the effect of demotivating the workforce. Emphasize that factors related to the organizational culture, the business of the company, and its market (and competition) are important influences on the need for control.

8.3   Bureaucracy

The notion of an "ideal" bureaucracy needs to be carefully explained. Two difficulties typically arise. First, make clear that Weber was *not* proposing a morally perfect organization. Rather, the "ideal" bureaucracy is supposed to be entirely rational and hence to work with optimal efficiency. The fact that very few organizations approach it in all respects does not invalidate it as a model. Second, "bureaucracy" does not refer only to government and public sector organizations, and does not imply excessive red tape. The term can be applied to *all* organizations in which rules are used to distinguish relationships and roles.

Organizations have varying needs for bureaucratic arrangements. Problems occur when a company is "under-bureaucratized" as much as when it is "over-bureaucratized." Under-bureaucratization is sometimes found in an entrepreneurial company that has grown very rapidly and lacks the structures needed to secure long-term stability. Ask students for examples of both tendencies.

The company's particular needs for bureaucracy are influenced by a range of factors, including the industry, strategy, personalities, organizational culture, size, technology, labor force, and the task. These are listed and discussed.

In particular, check understanding of subsection 8.3.10, dealing with the complexity of the task. Reinforce the point that the most important role of organizational structures is to channel communication efficiently – meaning that certain options for communicating are opened and made easier, and other options are made harder. When the task changes, needs to communicate with other persons concerned with its success also change. This has implications for rapidly developing economies, when companies add value by making greater use of information technology.

8.4   Culture and bureaucracy

The influence of national culture is dealt with here – the one major factor not listed above. The explanatory powers of Hofstede's model are discussed. The main point to make is that the model does *not* mean that every organization in each quadrant follows the same patterns. Students may point out that a government office in, say, a market bureaucracy (e.g. the United States) is more bureaucratic than, say, an advertising

agency in a full bureaucracy (e.g. in France). But this is not Hofstede's point. His model shows that a government office in the United States is relatively *more* like a village market than is an equivalent government office in France, and that an advertising agency in the United States is also more like the market than is its French equivalent. That is, like must be compared with like.

B: Implications for the Management Student

(This section modifies the material on p. 185 of the textbook.)

Compare structures in your business school to some other organization that you know well.

1. In each of the two organizations, how far are these types of behavior rewarded, or punished?
   a. The member follows his/her job specifications to the letter
   b. The member departs from his/her job specification when this seems more likely to accomplish the task
   c. The member always follows official reporting procedures
   d. The member bypasses the hierarchy when this seems more likely to accomplish the task.
2. Which organization takes more trouble in:
   a. Imposing formal systems for controlling performance?
   b. Imposing formal communication systems?
3. In each of the two organizations, compare and contrast the following:
   – RELATIONS BETWEEN PEERS. How easily do they cooperate? Over what issues do they come into conflict? How much do they socialize outside the workplace?
   – RELATIONS BETWEEN SUPERIOR AND SUBORDINATES. How much supervision do the subordinates require? How much freedom do they have to plan, implement, and evaluate their own work? How easily can they communicate by bypassing the hierarchy? How much do superior and subordinates socialize outside the workplace?
4. How do you explain any differences between the organizations that you have noted above?

C: Class Discussion Questions

1. Do you agree that bureaucratic rules guarantee efficiency? For example, in what circumstances might it be more efficient to recruit your family members in

preference to persons recruited through "impersonal" means (for example, persons answering a newspaper advertisement)? (*Clue*: think about family companies and refer to chapter 12.)

2. In your country, at what age do government servants have to retire? (In most countries, the rule is at 60 or 65.) What are the arguments for changing this or for removing any age limits?

3. Have you ever worked in a matrix organization? If so, in what industry and what mode of production (for instance, continuous or project-based)?
    –   If you have not had this experience, would you wish to? Why?/Why not?
    –   Do you think that, typically, members of your culture can work efficiently in dual-boss structures? Why?/Why not?

4. Give examples of how greater use of information technologies affects communication relationships. How do these changes influence needs for structure in companies?

D: Answers to the Exercise

Make the point that in all manufacturing companies, sales and production functions are likely to argue over schedules. (Ask the students: why is this?) This makes it necessary to establish formal mechanisms for resolving such disputes.

Accept solutions that show understanding of the main features of a marketplace bureaucracy and of a full bureaucracy. A structure established for a company in a marketplace bureaucracy reflects small power distances and small needs to avoid uncertainty. It exploits capacity for speedy communications, often at relatively junior levels (for instance, an ad hoc committee of production and sales assistants, regular meetings, case-by-case reviews). The structure established for the full bureaucracy reflects large power distances and large needs to avoid uncertainty. It exploits needs for hierarchical organization and unambiguous decision making: decisions made by top management are binding. For instance, the two functional managers are brought together by the CEO to establish fixed procedures.

E: Additional Exercise Material

This exercise asks you to analyze the structure of your own organization, whether business school or company.

1. Answer these questions by choosing which positions best reflect your points of view. [*Note*: teachers may add further questions.]

a. In this organization I can communicate with members of other departments/ units without having to check with my boss.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

b. Job responsibilities are tightly specified.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

c. Members have little or no sense of personal loyalty to their boss.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

d. Decision making is highly decentralized.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

e. Employees are afraid to express disagreement with the boss.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

f. The good boss tries to have at hand precise answers to most of the questions that subordinates raise about their work.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

g. Middle managers have wide opportunities to use their initiative and take independent decisions.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

h. Subordinates prefer a boss who gives directions, rather than a boss who participates.
Strongly agree   *Strongly disagree*

       1   2   3   4   5   6

2. On the basis your analysis of these answers, and of your general experience, decide whether your organization is typical of:
   a. A full bureaucracy
   b. A marketplace bureaucracy
   c. A workflow bureaucracy
   d. A personnel bureaucracy.
3. Does your organization fit the national type? Take into account Hofstede's model and industry factors. If *no*, why not?

Suggestions: Most people take the structures and cultures of their own organizations for granted. This exercise is designed to challenge this complacency.

F: Test Bank

1. A formal structure regulates only:
   a. The members' different responsibilities
   b. The members' formal relationships
   c. The members' responsibilities and formal relationships
   d. The members' responsibilities, formal relationships, and informal relationships.
(Answer, c: p. 169)

2. A divisional structure:
   a. Is only appropriate in a small firm
   b. Organizes interests widely separated in terms of geography and/or product
   c. Means that each individual reports to two bosses
   d. Incorporates either functional or product structures – but not both.
(Answer, b: p. 171)

3. The matrix works best:
   a. Where tasks are routine and admit only one possible solution
   b. Where needs to avoid uncertainty are highest
   c. In hospitals
   d. When members trust each other and are happy to share information.
(Answer, d: pp. 171–3)

4. The term "control" is used here to mean:
   a. The use of oppressive rules
   b. Discouraging motivation
   c. The regulation of activities
   d. Centralization.
(Answer, c: p. 173)

5. Tight control is:
   a. Always desirable
   b. Always demotivating
   c. Sometimes expensive
   d. Always undesirable.
(Answer, a: p. 173)

6. Companies centralize their operations when:
   a. Speed in responding to the environment is the top priority
   b. Communication between departments has to be coordinated
   c. Decision making is entrusted to lower levels
   d. There is no sense of risk.
(Answer, b: p. 173)

7. Units have greater opportunities to negotiate how their tasks should be performed when:
    a. The task is open-ended
    b. Decision making is centralized
    c. Tight control is welcomed
    d. Their members are expert in performing the tasks.

(Answer, a: p. 174)

8. Decentralization:
    a. Encourages the development of a number of power sources
    b. Pushes decision making up to the highest level
    c. Tightly coordinates communication between departments
    d. Reduces the sense of risk.

(Answer, a: pp. 174–5)

9. A structure that meets the needs of a typical hotel in the United States:
    a. Meets the needs of any other firm in the United States
    b. Meets the needs of a hotel anywhere else in the world
    c. May not meet the needs of firms in other industries in the United States
    d. Is probably not effective outside the United States.

(Answer, c: p. 176)

10. Typically in a small power distance culture:
    a. Close control is negatively evaluated
    b. Close control is positively evaluated
    c. Relationships within the organization become highly personalized
    d. Bureaucratic regulations are only significant in the public sector.

(Answer, a: p. 179)

11. Ethnic, tribal, clan, and family ties most influence how bureaucratic structures are implemented:
    a. In personnel bureaucracies
    b. In more feminine cultures
    c. Where power distances are small and needs to avoid uncertainty are large
    d. In the banking industry.

(Answer, a: pp. 182–3)

12. Hofstede's models of bureaucratic types explain why:
    a. All bureaucracies are essentially the same
    b. Public sectors are least effective where power distances are small
    c. Firms in marketplace bureaucracies are the most entrepreneurial
    d. A firm in the United States and a firm in France, in the same industry and of equivalent size, may vary in terms of structure.

(Answer, d: p. 184)