天津外国语大学(天外)
Tianjin Foreign Studies University (TFSU)

Organizational Behaviour

Online class starts at 08:00

(Beijing Time, GMT+8)

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May 04 and 11, 2023

Organizational Structure and Design

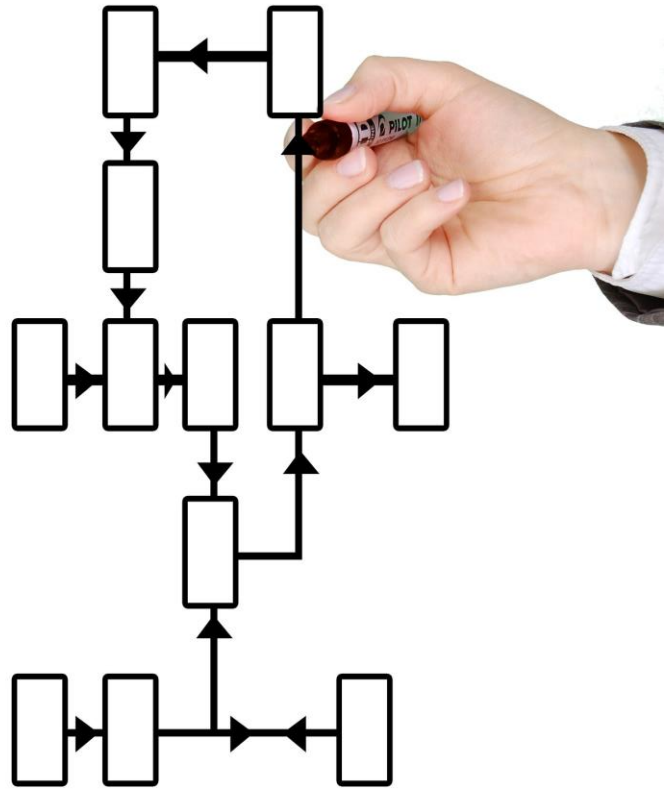
Learning Objectives. After completing this lecture, you should be able to:

- **Compare** mechanistic and organic organizational design models.
- **Identify** the choices that must be made in designing an organizational structure.
- **Summarize** how formalization, centralization, and complexity affect organizational structure.
- **Discuss** multinational organizational structure and design issues.
- **Explain** the meaning of the term virtual organization.
- Understand the concept of the teal organizations.

Introduction

Organizational structure and design have always been important factors influencing the behavior of individuals and groups that comprise the organization; the new rules of operating in today's global business environment make structure and design considerations even more critical. A recent PwC survey of more than 1,400 CEOs from around the world found that a top priority of business leaders is how to design their operations for speed and flexibility to achieve success. This is an important goal because it is through structure that managers decide how the organization's purposes will be accomplished.

Today's managers are faced with a wide variety of structural possibilities. The following sections will discuss two organizational design models, four decisions related to organizational design, three dimensions of structure and how they interact with those decisions, multicultural influences on organizational structure, and virtual organizations.



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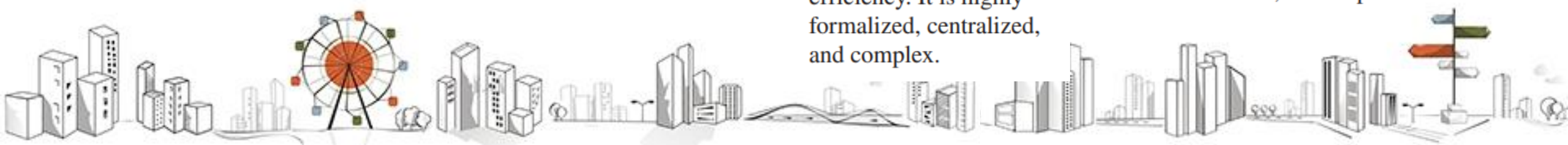
Organizational Design Models

The two models of organizational design described in this section are important ideas in management theory and practice. Because of their importance, they receive considerable theoretical and practical attention. Although many variations on these models can be found in practice, we will focus on the basic elements of mechanistic and organic organizational designs.

- **The Mechanistic Model**
- **The Organic Model**

mechanistic model of organizational design
The type of organizational design that emphasizes the importance of production and efficiency. It is highly formalized, centralized, and complex.

organic model of organizational design
The organizational design that emphasizes the importance of adaptability and development. It is relatively informal, decentralized, and simple.



The Mechanistic Model

Mechanistic organizational structures, as in the military and with certain religions, are formal, centralized, and complex. An early management writer, Henri Fayol, proposed a number of principles that he had found useful in managing a large coal mining company in France. Some of Fayol's principles dealt with the management function of organizing; four of these are relevant for understanding the mechanistic model of organizational design.

formalization
A dimension of organizational structure that refers to the extent to which rules, procedures, and other guides to action are written and enforced.

centralization
A dimension of organizational structure that refers to the extent to which authority to make decisions is retained in top management.

complexity
A dimension of organizational structure that refers to the number of different jobs and/or units within an organization.

The Principle of Specialization

Fayol stated that specialization is the best means for making use of individuals and groups. Scientific management popularized a number of methods for implementing specialization of labor. These methods, such as work standards and motion-and-time study, emphasized technical (not behavioral) dimensions of work.

The Principle of Unity of Direction

According to this principle, jobs should be grouped according to specialty. Engineers should be grouped with engineers, salespeople with salespeople, accountants with accountants. Functional departmentalization (discussed later in the class) best captures this principle.

The Principle of Authority and Responsibility

Fayol believed that a manager should be delegated sufficient authority to carry out her assigned responsibilities. Because the assigned responsibilities of top managers are considerably more important to the future of the organization than those of lower management, applying the principle inevitably leads to centralized authority. Centralized authority also occurs because the work at this level is more complex, the number of workers involved is greater, and the relationship between actions and results is remote.

The Scalar Chain Principle

scalar chain
The graduated chain of authority created through the delegation process.

The natural result of implementing the preceding three principles is a graded chain of managers from the ultimate authority to the lowest ranks. The scalar chain is the route for all vertical communications in an organization. Accordingly, all communications from the lowest level must pass through each superior in the chain of command. Correspondingly, communication from the top must pass through each subordinate until it reaches the appropriate level.

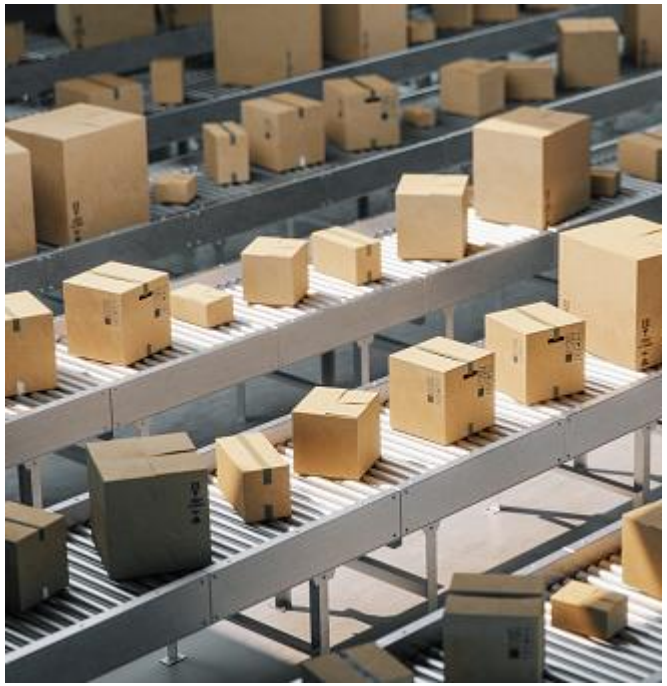
Fayol's writings became part of a literature that, although each contributor made unique contributions, had a common thrust. Writers such as Mooney and Reilly, Follett, and Urwick all shared the common objective of defining the principles that should guide the design and management of organizations. A complete review of their individual contributions won't be attempted here. However, we'll review the ideas of one individual, Max Weber, who made important contributions to the mechanistic model. He described applications of the mechanistic model and coined the term bureaucracy.

Bureaucracy

Bureaucracy has various meanings. The traditional usage is the political science concept of government by bureaus but without participation by the governed. In layman's terms, bureaucracy refers to the negative consequences of large organizations, such as excessive red tape, procedural delays, and general frustration. But in Max Weber's writings, bureaucracy refers to a particular way to organize collective activities. Weber's interest in bureaucracy reflected his concern for the ways society develops hierarchies of control so that one group can, in effect, dominate other groups. Organizational design involves domination in the sense that authority involves the legitimate right to exact obedience from others. His search for the forms of domination that evolve in society led him to the study of bureaucratic structure.

To achieve the maximum benefits of the bureaucratic design, Weber believed that an organization must have the following characteristics:

1. All tasks will be divided into highly specialized jobs.
2. Each task is performed according to a system of abstract rules to ensure uniformity and coordination of different tasks.
3. Each member or office of the organization is accountable for job performance to one, and only one, manager.
4. Each employee of the organization relates to other employees and clients in an impersonal, formal manner, maintaining a social distance with subordinates and clients.
5. Employment in the bureaucratic organization is based on technical qualifications and is protected against arbitrary dismissal.



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The Organic Model

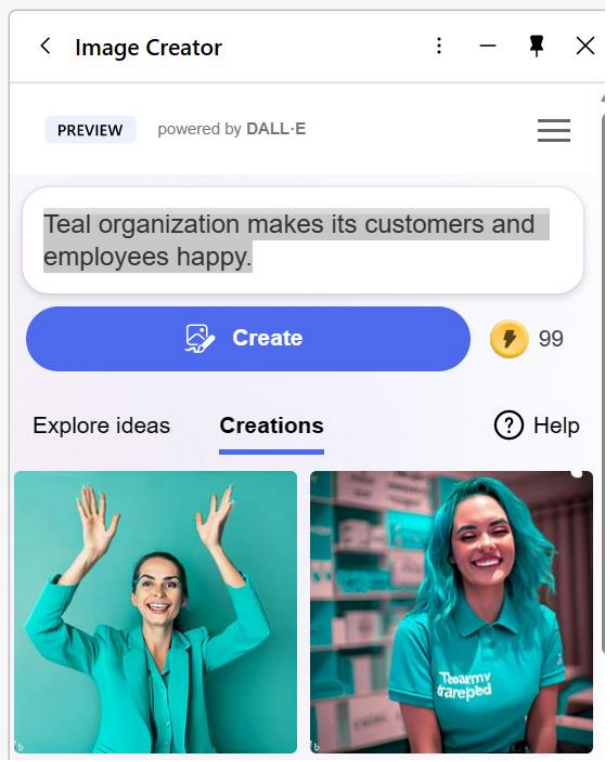
The organic model of organizational design stands in sharp contrast to the mechanistic model due to their different organizational characteristics and practices. In contrast to the highly structured UPS, W. L. Gore & Associates (maker of Gore-Tex fabrics) has a more organic organizational design in which very few ranks and titles are used, and individuals are free to “pursue ideas on their own, communicate with one another, and collaborate out of self-motivation rather than a sense of duty.”

The most distinct differences between the two models are a consequence of the different effectiveness criteria each seeks to maximize. While the mechanistic model seeks to maximize efficiency and production, the organic model seeks to maximize satisfaction, flexibility, and development.

The Organic Model

Characterized by self-management, wholeness, and a deeper sense of purpose, these organizations – which are described as “Teal” – operate largely without organization charts, management hierarchies, quarterly goals or other traditional management strategies. Instead, they’re characterized by features like self-managed teams, intuitive reasoning and decentralized decision-making. Because these practices are so new, the conversation around what they are and how to implement them is ongoing

Teal organization makes its customers and employees happy. AI generated pictures:



An organizational design that provides individuals with this sense of personal worth and motivation and that facilitates satisfaction, flexibility, and development would have the following characteristics:

1. It’s relatively simple because of its de-emphasis on specialization and its emphasis on increasing job range.
2. It’s relatively decentralized because of its emphasis on delegation of authority and increasing job depth.
3. It’s relatively informal because of its emphasis on product and customer as bases for departments.

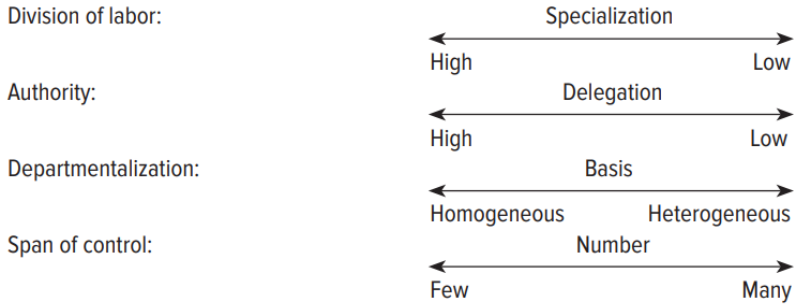
Designing an Organizational Structure

organizational design
A specific organizational structure that results from managers' decisions and actions.

Managers who set out to design an organizational structure face difficult decisions. They must choose among a myriad of alternative frameworks of jobs, work projects, and departments. The process by which they make these choices is termed organizational design, and it means quite simply the decisions and actions that result in an organizational structure. This process may be explicit or implicit, it may be "one-shot" or developmental, it may be done by a single manager or by a team of managers.

However the actual decisions come about, the content of the decisions is always the same. The first decision focuses on individual jobs, the next two decisions focus on departments or groups of jobs, and the fourth decision considers the issue of delegation of authority throughout the structure.

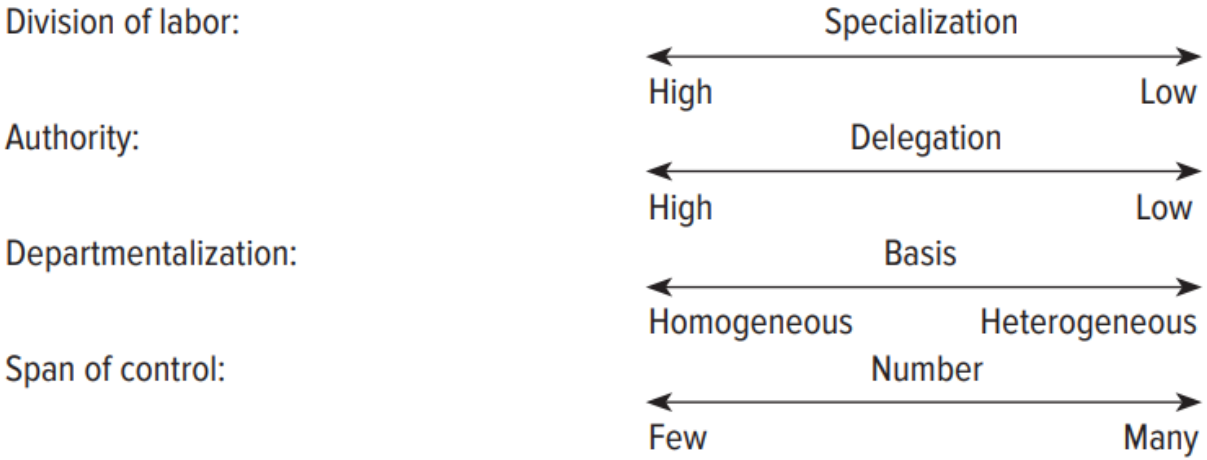
Four main focuses:



- Managers decide how to divide the overall task into successively smaller jobs. Managers divide the total activities of the task into smaller sets of related activities. The effect of this decision is to define jobs in terms of specialized activities and responsibilities. Although jobs have many characteristics, the most important one is their degree of specialization.
- Managers decide the bases by which to group the individual jobs. This decision is much like any other classification decision, and it can result in groups containing jobs that are relatively homogeneous (alike) or heterogeneous (different).
- Managers decide the appropriate size of the group reporting to each superior. As we have already noted, this decision involves determining whether spans of control are relatively narrow or wide.
- Managers distribute authority among the jobs. Authority is the right to make decisions without approval by a higher manager and to exact obedience from designated other people. All jobs contain some degree of the right to make decisions within prescribed limits. But not all jobs contain the right to exact obedience from others. The latter aspect of authority distinguishes managerial jobs from nonmanagerial jobs. Managers can exact obedience; nonmanagers can’t.

Four main focuses:

Organizational structures tend toward one extreme or the other along each continuum. Structures tending to the left are characterized by a number of terms including classical, formalistic, structured, bureaucratic, System 1, and mechanistic. Structures tending to the right are termed neoclassical, informalistic, unstructured, nonbureaucratic, System 4, and organic. Exactly where along the continuum an organization finds itself has implications for its performance as well as for individual and group behavior.



Case-study 01

- In your opinion, to what extent (if at all) should an organization be committed to the environment?
- While FHI may view its environmental initiatives as investments, whose funds are being invested?
- Is FHI doing too much or too little?

YOU BE THE JUDGE

CAN ORGANIZATIONAL DESIGN IMPACT CORPORATE SOCIAL RESPONSIBILITY?

Fuji Heavy Industries (FHI), a Japanese company, has organized itself into four divisions: automobile, aerospace, industrial products, and "other." While most people may not be familiar with FHI, almost everyone has heard of its car brand, Subaru. FHI's other divisions produce a diverse range of products from military helicopters and airliner wings to sanitation vehicles. Although FHI is entrenched in classic "heavy industries," it is not your typical smokestack company.

FHI's corporate philosophy specifically includes its "aim to continuously promote harmony between people, society, and the environment." The company has also issued a specific environmental policy that states:

> FHI recognizes the integral relationship between the environment and its business activities and strives to provide products that are friendly to the earth, society, and people. FHI is protecting the environment to ensure our future.

FHI doesn't stop there. Its "operating criteria for environmental conservation" expands on the environmental policy and includes the following points:

1. FHI is committed to environmental conservation and gives consideration to environmental impact at every step of product development, design, manufacture, sales, service, and disposal.
2. FHI observes the relevant laws, regulations, and agreements with communities and industries, while also promoting voluntary activities in accordance with its own environmental objectives and targets as determined by the company.
3. FHI recognizes the importance of continual improvement and efforts to prevent pollution and encourages every employee to act with self-awareness and responsibility.
4. FHI endeavors to raise environmental consciousness by providing educational opportunities for its employees according to their job status and job description.
5. FHI regularly performs audits and inspections to improve its environmental conservation activities.
6. FHI is committed to interacting within the community and engaging in joint activities to further environmental preservations.

FHI has done more than just issue statements. For example, many Subarus are engineered as super-ultra-low-emission and zero-emission vehicles. According to Environmental Protection Agency (EPA) fuel economy statistics, Subaru sells the most fuel-efficient fleet of all-wheel-drive vehicles in the market, but its commitment doesn't end there. Subaru's Indiana manufacturing plant (SIA) was the first auto assembly plant in the world that sends nothing from its manufacturing operation to a landfill. Subaru proudly proclaims that the average U.S. consumer sends more trash to a landfill each week than its SIA facility. As if that's not enough, SIA's 800 acres have been designated a "Backyard Wildlife Habitat" and are an animal sanctuary. The manufacturing campus is home to numerous forms of wildlife including the bald eagle. Subaru sponsors various community organizations including: the ASPCA, Leave No Trace Center for Outdoor Ethics, and the Geological Society of America.

FHI's environmental efforts aren't just limited to Subaru. It has developed ultra-light materials for use in aircraft and is involved in wind and other alternative energy initiatives. Even its sanitation vehicles are designed to be eco-friendly. FHI's commitment to the environment is embedded in its organization from the chairman to the line employee.

In your opinion, to what extent (if at all) should an organization be committed to the environment? While FHI may view its environmental initiatives as investments, whose funds are being invested? Is FHI doing too much or too little? You be the judge.

Sources: Company website, "Business Segment & Geographic Area," http://www.fhi.co.jp/english, accessed June 2, 2016; company website, "About Subaru of America, Inc.," http://www.subaru.com, accessed June 2, 2016; company website, "Fuji Heavy Industries," http://www.drive.subaru.com, accessed June 2, 2016.

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Organizations should have an ethical and social responsibility to minimize their negative impact on the environment and work towards sustainability. Companies that adopt environmentally-friendly policies can benefit in a number of ways, such as reducing costs associated with waste management and energy consumption, improving public image, attracting socially conscious customers and employees, and complying with government regulations.

Yile Qin

It is the most important social responsibilities for companies to contribute to the environment. FHI first uses government or financial markets funds to produce environment-friendly products, and then earn profits from consumers, so that they can have more money to invest. The investment stimulates the innovation and competition between companies, while protecting the environment. Our development should be sustainable, and so should companies. I think it's good to have more companies like FHI.

Division of Labor

Division of labor concerns the extent to which jobs are specialized. Managers divide the total task of the organization into specific jobs having specified activities. The activities define what the person performing the job is to do. For example, activities of the job “bookkeeper or accountant” can be defined in terms of the methods and procedures required to process a certain quantity of transactions during a specific period of time.

The economic advantages of dividing work into specialized jobs are the principal historical reasons for the creation of organizations. As societies became more and more industrialized and urbanized, craft production gave way to mass production. Mass production depends upon the ability to obtain the economic benefits of specialized labor, and the most effective means for obtaining specialized labor is through organizations. Although managers are concerned with more than the economic implications of jobs, they seldom lose sight of specialization as the rationale for dividing work among jobs

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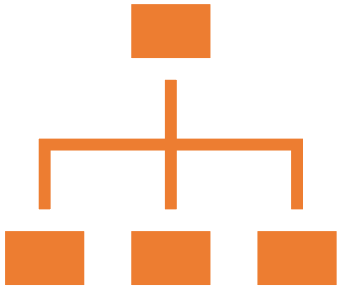
Division of labor in organizations can occur in three different ways:

1. Personal specialties. Most people think of specialization in the sense of occupational and professional specialties. Thus, we think of human resource staff, software engineers, website designers, scientists, physicians, and the myriad of other specialties that exist in organizations and everyday life.
2. Natural sequence of work. For example, manufacturing plants often divide work into fabricating and assembly, and individuals will be assigned to do the work of one of these two activities. This particular division of work is termed horizontal specialization.
3. Vertical plane. All organizations have a hierarchy of authority from the lowest-level manager to the highest-level manager. The CEO's work is different from the shift supervisor's.

10-minute break

Division of labor



Determining what each job in the organization should do is a key managerial decision. Jobs vary along a general dimension of specialization, with some jobs being more highly specialized than others. Managers can change an organization’s structure by changing the degree of specialization of jobs.

The process of defining the activities and authority of jobs is analytical; that is, the total task of the organization is broken down into successively smaller ones. But then management must use some basis to combine the divided tasks into groups or departments containing some specified number of individuals or jobs. W

Delegation of Authority

Managers decide how much authority should be delegated to each job and each jobholder. As we have noted, authority refers to individuals' right to make decisions without approval by higher management and to exact obedience from others. Delegation of authority refers specifically to making decisions, not to doing work. A sales manager can be delegated the right to hire salespeople (a decision) and the right to assign them to specific territories (obedience). Another sales manager may not have the right to hire but may have the right to assign territories. Thus, the degree of delegated authority can be relatively high or relatively low with respect to both aspects of authority. Any particular job involves a range of alternative configurations of authority delegation. Managers must balance the relative gains and losses of alternatives.

Reasons to Decentralize Authority

Relatively high delegation of authority encourages the development of professional managers. When Steve Ballmer became CEO of Microsoft in 2000, he slowly transformed the giant tech company's organizational structure into one that is more decentralized. As Bill Gates retired from daily operations at Microsoft, Ballmer shifted the company away from its PC roots to cloud computing services, data-center software, video gaming, and the acquisition of the Skype franchise. In 2014, Ballmer retired, and Satya Nadella replaced him as Microsoft's CEO. A seasoned veteran of the company, Nadella continues to tweak the organizational structure in an effort to keep the company flexible—and relevant—in the ever-changing technology sector. Organizations that decentralize (delegate) authority enable managers to make significant decisions, to gain skills, and to advance in the company. This allows managers to develop expertise that enables them to cope with problems encountered by upper management. Consequentially, they are trained for promotion into positions of even greater authority and responsibility. Upper management can readily compare managers on the basis of actual decision-making performance. Advancement of managers on the basis of demonstrated performance can eliminate favoritism and minimize personality in the promotion process.

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Reasons to Decentralize Authority

Second, high delegation of authority can lead to a competitive climate within the organization. At decentralized organizations like Johnson & Johnson, managers are motivated to produce since they're compared with their peers on various performance measures. A competitive environment in which managers compete on sales, cost reduction, and employee development targets can be a positive factor in overall organizational performance. Competitive environments can also produce destructive behavior if one manager's success occurs at the expense of another's. But regardless of whether it's positive or destructive, significant competition exists only when individuals have authority to do those things that enable them to win.

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Reasons to Decentralize Authority

Finally, managers who have relatively high authority can exercise more autonomy and thus satisfy their desires to participate in problem solving. This autonomy can lead to managerial creativity and ingenuity, which contribute to the adaptiveness and development of the organization and managers. As we've seen in earlier chapters, opportunities to participate in setting goals can be positive motivators. But a necessary condition for goal setting is authority to make decisions. Many organizations, large and small, choose to follow the policy of decentralization of authority.

Decentralization of authority has its benefits, but these benefits aren't without costs. Organizations that are unable or unwilling to bear these costs will find reasons to centralize authority.

Reasons to Centralize Authority

Several reasons support centralizing authority.

- First, managers must be trained to make the decisions that go with delegated authority. Formal training programs can be quite expensive, which can more than offset the benefits.
- Second, many managers are accustomed to making decisions and resist delegating authority to their subordinates. Consequently, they may perform at lower levels of effectiveness because they believe that delegation of authority involves losing control.
- Third, administrative costs are incurred because new or altered accounting and performance systems must be developed to provide top management with information about the effects of their subordinates' decisions. When lower levels of management have authority, top management must have some means of reviewing the use of that authority. Consequently, they typically create reporting systems that inform them of the outcomes of decisions made at lower levels in the organization.
- The fourth and perhaps most pragmatic reason to centralize is that decentralization means duplication of functions. Each autonomous unit must be truly self-supporting to be independent. But that involves a potentially high cost of duplication. Some organizations find that the cost of decentralization outweighs the benefits.

Decision Guidelines

Like most managerial issues, whether authority should be delegated in a high or low degree cannot be resolved simply.38 As usual, in managerial decision making, whether to centralize or decentralize authority can only be guided by general questions.

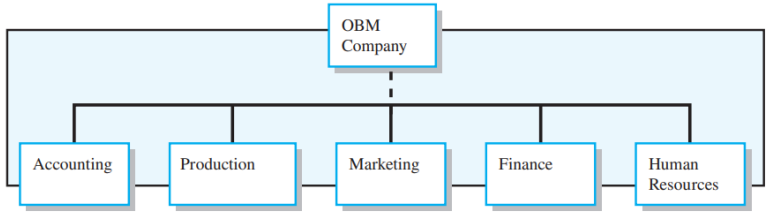
Departmental Bases

departmentalization
The manner in which an organization is structurally divided. Some of the more publicized divisions are by function, territory, product, customer, and project.

As the number of employees with specialized jobs increases within an organization, it becomes more difficult for a single manager to coordinate their efforts. Thus, to create manageable numbers of jobs, they are combined into smaller groups and a new job is defined—manager of the group.

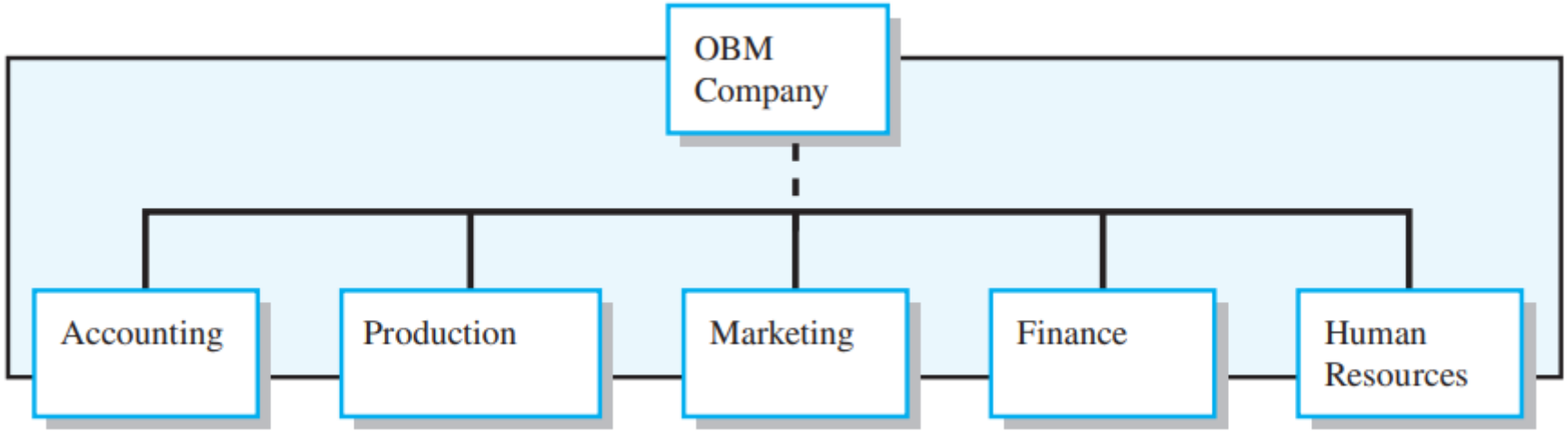
The crucial managerial consideration when creating departments is determining the basis for grouping jobs. Of particular importance is the determination for the bases for departments that report to the top management position. In fact, numerous bases are used throughout the organization, but the basis used at the highest level determines critical dimensions of the organization. Some of the more widely used departmentalization bases are described in the following sections

Functional Departmentalization



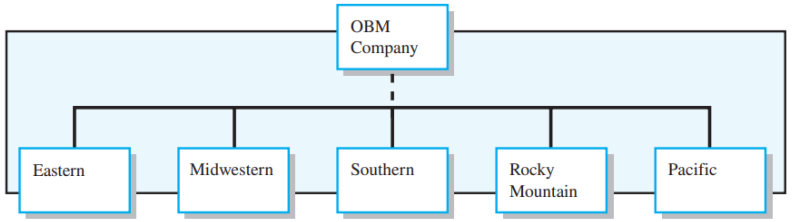
Managers can combine jobs according to the functions of the organization. Every organization must undertake certain activities to do its work. These necessary activities are the organization's functions. The necessary functions of a manufacturing firm include production, marketing, finance, accounting, and human resources. These activities are necessary to create, produce, and sell a product. Necessary functions of a commercial bank include taking deposits, making loans, and investing the bank's funds. The functions of a hospital include surgery, psychiatry, housekeeping, pharmacy, nursing, and human resources.40 Each of these functions can be a specific department, and jobs can be combined according to them. The functional basis is often found in relatively small organizations that provide a narrow range of products and services. It is also widely used as the basis in divisions of large multiproduct organizations.

EXHIBIT 1 Functional Departmentalization Structure



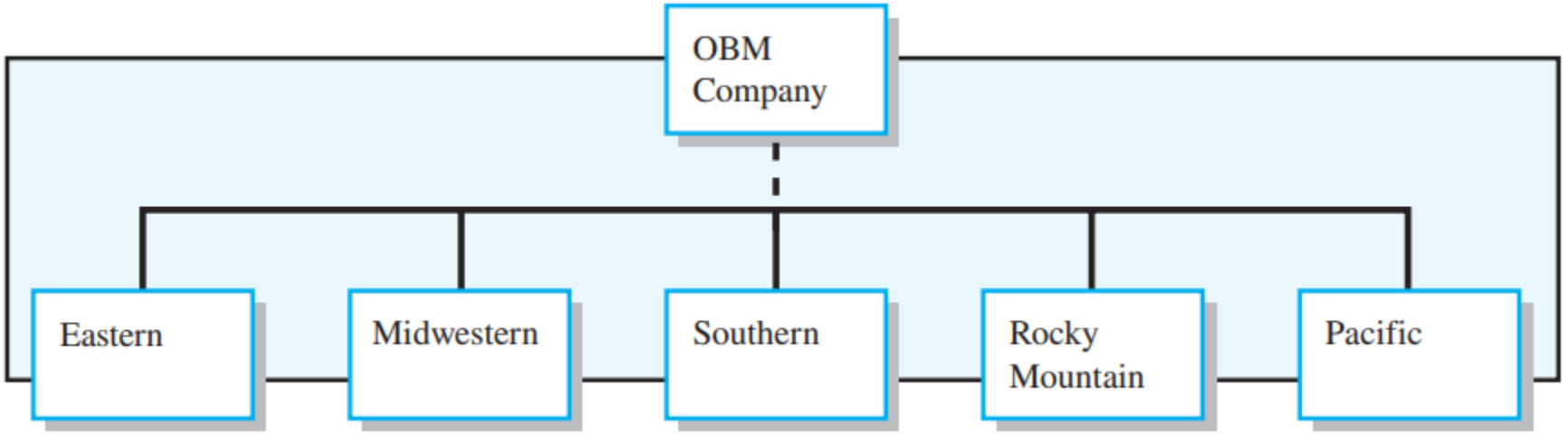
A major disadvantage of this departmental basis is that, because specialists are working with and encouraging each other in their areas of expertise and interest, organizational goals may be sacrificed in favor of departmental goals. Accountants may see only their problems and not those of production or marketing or the total organization. In other words, the culture of and identification with the department are often stronger than identification with the organization and its culture.

Geographic Departmentalization



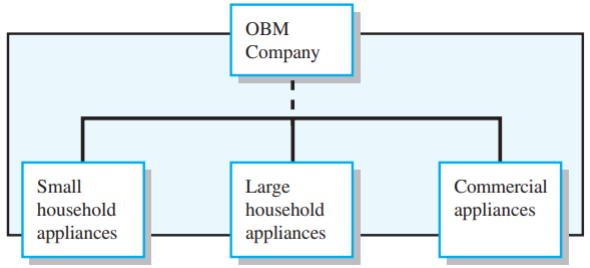
- Another basis for departmentalizing is to establish groups according to geographic area. The logic is that all activities in a given region should be assigned to a manager. This individual is in charge of all operations in that particular geographic area.
- In large organizations, geographic arrangements are advantageous because physical separation of activities makes centralized coordination difficult. This approach also makes sense when a company has operations, units, or subsidiaries in different countries of the world. The markets, customers, or suppliers may differ so much from one country to the next that the company needs to structure itself around them. For example, MetLife recently reorganized into three broad geographic regions: the Americas; Europe, Middle East, and Africa (EMEA); and Asia

EXHIBIT 16.2 Geographic Departmentalization Structure



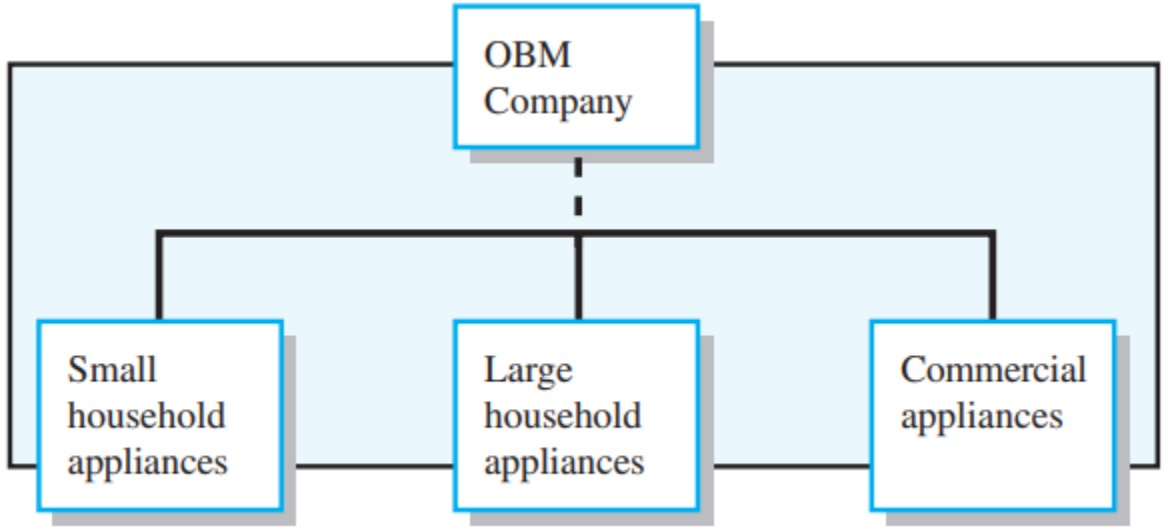
Geographic departmentalization provides a training ground for managerial personnel. The company is able to place managers in territories and then assess their progress in that geographic region. The experience that managers acquire in a territory away from headquarters provides valuable insights about how products and/or services are accepted in the field. Exhibit 16.2 depicts a geographic organization structure.

Product Departmentalization



Managers of many large, diversified companies group jobs on the basis of product. All jobs associated with producing and selling a product or product line will be placed under the direction of one manager. Product becomes the preferred basis as a firm grows by increasing the number of products it markets. As a firm grows, it's difficult to coordinate the various functional departments and it becomes advantageous to establish product units. This form of organization allows personnel to develop total expertise in researching, manufacturing, and distributing a product line. Concentrating authority, responsibility, and accountability in a specific product department allows top management to coordinate actions.

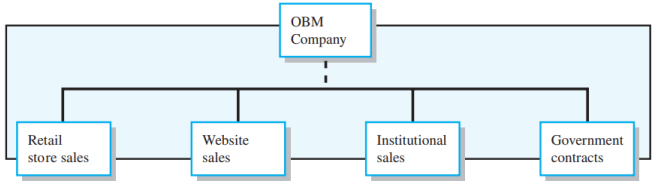
EXHIBIT 16.3 Product Departmentalization Structure



Product-based organizations foster initiative and autonomy by providing division managers with the resources necessary to carry out their profit plans. But such organizations face the difficult issue of deciding how much redundancy is necessary. Divisional structures contain some degree of redundancy because each division wants its own research, engineering, marketing, production, and all other functions necessary to do business. Thus, technical and professional personnel are found throughout the organization at the division levels. The cost of this arrangement can be exorbitant.

5-minute break

Customer Departmentalization



Customers and clients can be a basis for grouping jobs. Examples of customeroriented departments are the organizational structures of educational institutions. Some institutions have regular (day and night) courses and extension divisions. In some instances, a professor will be affiliated solely with the regular division or extension division. In fact, titles of some faculty positions specifically mention the extension division.

Another form of customer departmentalization is the loan department in a commercial bank. Loan officers are often associated with industrial, commercial, or agricultural loans. The customer will be served by one of these three loan officers

Verizon

Verizon, the global communications company, has more than 173,000 employees serving customers in 150 countries. In terms of U.S.-based customers, the firm is organized around different types of customers, including small businesses, medium and enterprise businesses, government agencies, residences, and wireless customers. The customercentric strategy seems to be paying off for Verizon. In 2015, the company's annual revenues reached more than $131 billion, ranking it at number 15 on the 2016 Fortune 500 list of companies.

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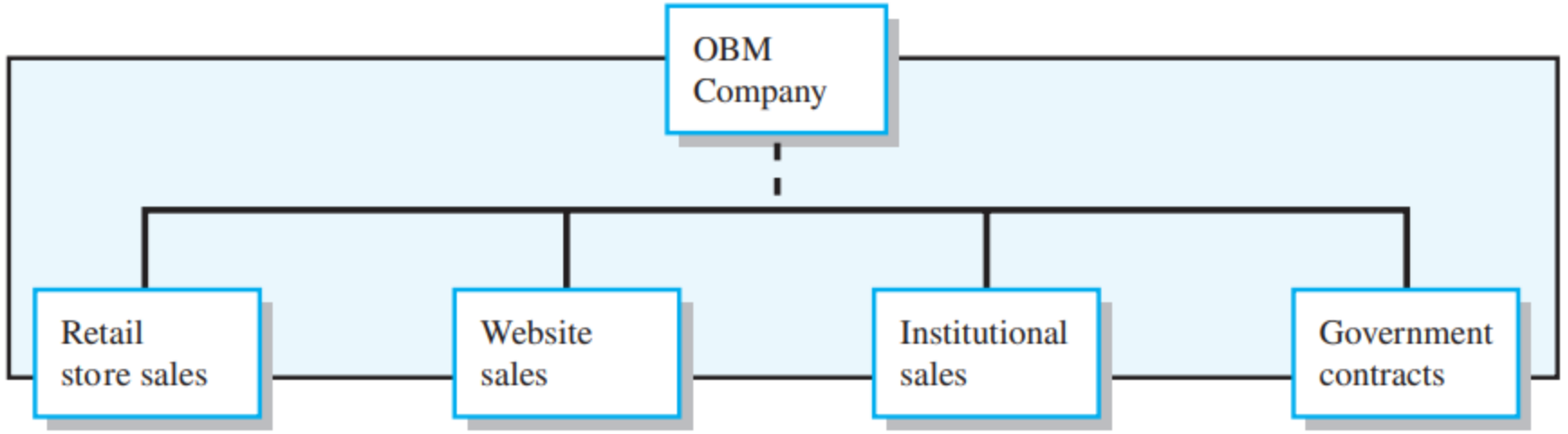
EXHIBIT 16.4 Customer Departmentalization Structure



The Matrix Model

matrix model of organizational design
An organizational design that superimposes a product- or project-based design on an existing function-based design.

The matrix model of organizational design attempts to maximize the strengths and minimize the weaknesses of both the functional and product bases. In practical terms, the matrix design combines functional and product departmental bases. By the way, have you seen Matrix movie?

matrix model of organizational design
An organizational design that superimposes a product- or project-based design on an existing function-based design.

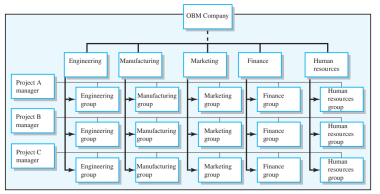
Plot of all four parts of matrix movie

The Matrix is a science fiction action film series created by the Wachowskis. The series consists of four films: The Matrix (1999), The Matrix Reloaded (2003), The Matrix Revolutions (2003), and The Matrix Resurrections (2021).

The first film follows Neo, a computer programmer who learns from mysterious rebels about the true nature of his reality and his role in the war against its controllers. The second and third films continue the story of the first film, with Neo learning more about his powers as “the One” and fighting against the machines that have enslaved humanity.

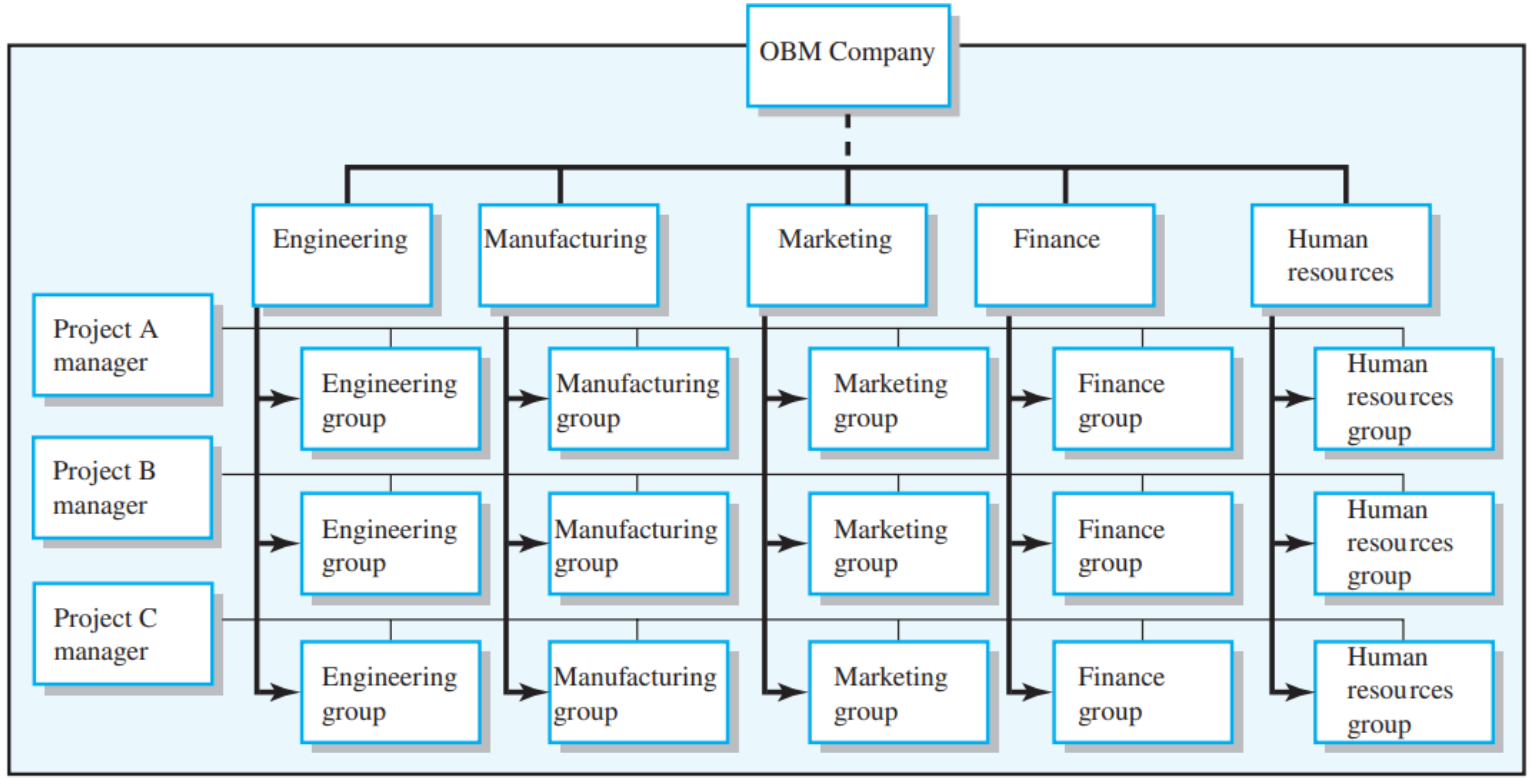
The fourth film is set sixty years after the events of the third film and follows Neo, who lives a seemingly ordinary life as a video game developer having trouble with distinguishing fantasy from reality. A group of rebels, with the help of a programmed version of Morpheus, free Neo from a new version of the Matrix and fight a new enemy that holds Trinity captive

The matrix model of organizational design



The matrix model of organizational design attempts to maximize the strengths and minimize the weaknesses of both the functional and product bases. In practical terms, the matrix design combines functional and product departmental bases.

Companies such as American Cyanamid, Avco, Carborundum, Caterpillar Tractor, Hughes Aircraft, ITT, Monsanto Chemical, National Cash Register, Prudential Insurance, TRW, and Texas Instruments are only a few users of matrix organization. Public sector users include public health and social service agencies.50 Although the exact meaning of matrix organization varies in practice, it’s typically seen as a balanced compromise between functional and product organization, between departmentalization by function and by product.



Matrix structures are found in organizations that (1) require responses to rapid change in two or more environments, such as technology and markets; (2) face uncertainties that generate high information-processing requirements; and (3) must deal with financial and human resources constraints.53 Managers confronting these circumstances must obtain certain advantages that are most likely to be realized with matrix organization

Information You Can Use

SURVIVING IN A MATRIX ORGANIZATION

While the dual structure of a matrix design can offer an organization numerous advantages, it also creates dual reporting relationships that can be problematic. Employees within a matrix organization face the potential of conflicting and noncoordinated directions. Such a situation can lead to employee stress, frustration, and the possibility of diminished productivity. The following suggestions may enhance individual success within a matrix organization.

- The team-based structure typical within a matrix organization requires effective communication within and between groups. Communicate clearly and often.
- Your success within a matrix organization may be dependent on working outside of previously defined structures. Knowing who to place on a project team is critical. Reach out and get to know others in the organization before you need their assistance.
- Within the multiple structure of a matrix organization, having simultaneous projects is likely. Strong organization and project management skills are particularly useful in a matrix structure. Be well aware of deadlines and manage your time between projects appropriately.
- With a dual reporting relationship, your supervisors may not know your current workload. Keep your management abreast of your activities and resist conflicting or excessive demands on your time. Avoid being caught in the middle of your supervisors by insisting that they and not you resolve conflicting directions.

es of Matrix Organization

of resources:

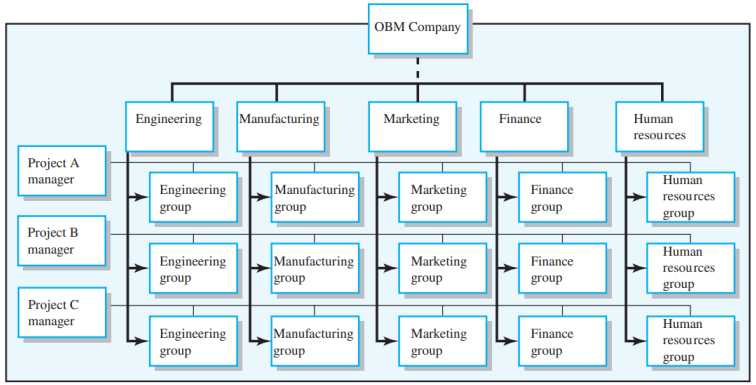
conditions of change and uncertainty

cellence

management for long-range planning

otivation and commitment

portunities for personal development



Yile Qin

It's more challenging since it needs handle more things and adapt to different working styles.

"May the Force be with you" was a phrase used to wish an individual or group good luck or good will. It expressed the speaker's wish that the Force work in the favor of the addressee. The phrase was often used as individuals parted ways or in the face of an impending challenge.

Different Forms of Matrix Organization

Matrix organization forms can be depicted as existing in the middle of a continuum with formal and centralized organizations at one extreme and with fluid and decentralized organizations at the other. Ordinarily, the process of moving to matrix organization is evolutionary. That is, as the present structure proves incapable of dealing with rapid technological and market changes, management attempts to cope by establishing procedures and positions that are outside the normal routine. This evolutionary process consists of the following steps:

- Task force
- Teams
- Product managers
- Product management departments

Forms of Matrix Organization

Exactly where along the continuum an organization stops in the evolution depends on factors in the situation. Specifically, and primarily important are the rates of change in technological and product developments. The resultant uncertainty and information required vary. A fully developed matrix organization has product management departments along with the usual functional departments. Such organizations have product managers reporting to top management, with subproduct managers for each product line.

Designing an Organizational Structure: Additional Issues to Consider

span of control
The number of subordinates reporting to a superior. The span is a factor that affects the shape and height of an organizational structure.

Span of Control

- The determination of appropriate bases for departmentalization establishes the kinds of jobs that will be grouped together. But that determination doesn't establish the number of jobs to be included in a specific group, the issue of span of control. Generally, the issue comes down to the decision of how many people a manager can oversee; that is, will the organization be more effective if the span of control is relatively wide or narrow? The question is basically concerned with determining the volume of interpersonal relationships that the department's manager is able to handle. Moreover, the span of control must be defined to include not only formally assigned subordinates, but also those who have access to the manager. Not only may a manager be placed in a position of being responsible for immediate subordinates, but she may also be chairperson of several committees and task groups.

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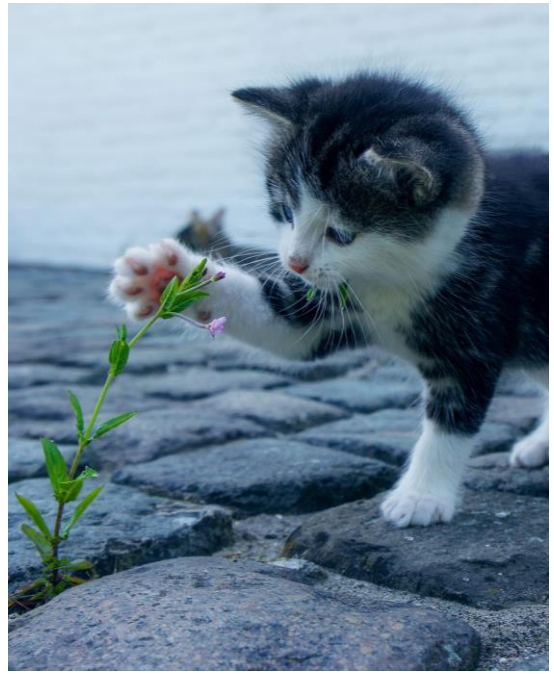
Required Contact

In research and development as well as medical and production work, frequent contact and a high degree of coordination are needed between a superior and subordinates. Conferences and other forms of consultation often aid in attaining goals within a constrained time period. For example, the research and development team leader may have to consult frequently with team members so that a project is completed within a time period that will allow the organization to place a product on the market. Thus, instead of relying upon e-mails and reports, it is in the best interest of the organization to have as many in-depth contacts with the team as possible. A large span of control would preclude contacting subordinates so frequently, which could impede the project. In general, the greater the inherent ambiguity in an individual's job, the greater the need for supervision to avoid conflict and stress



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Degree of Specialization

The degree of specialized employees is a critical consideration in establishing the span of control at all levels of management. It is generally accepted that a manager at the lower organizational level can oversee more subordinates because work at the lower level is more specialized and less complicated than at higher levels of management. Management can combine highly specialized and similar jobs into relatively large departments because the employees may not need close supervision.

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Ability to Communicate

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Instructions, guidelines, and policies must be communicated verbally to subordinates in most work situations. The need to discuss job-related factors influences the span of control. The individual who can clearly and concisely communicate with subordinates is able to manage more people than one who can't.

The widespread practice of downsizing and "flattening" organizations of all kinds has direct implications for the span-of-control decision. Downsizing reduces the number of all employees, but relatively more managers (usually middle managers) than nonmanagers

Managers need to consider how the four design decisions (division of labor, delegation of authority, departmentalization, and span of control) influence the structure of their organizations. In a similar vein, there are three dimensions of organizational structure that interact with these design decisions, namely formalization, centralization, and complexity

天津外国语大学(天外)
Tianjin Foreign Studies University (TFSU)

Organizational Behaviour

Online class starts at 08:00

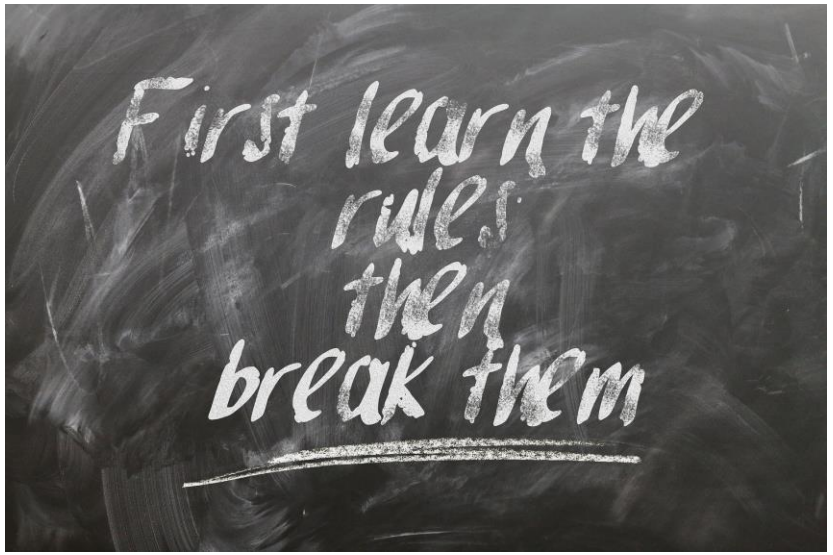
(Beijing Time, GMT+8)

Ivan Monich, PhD

May 11, 2023

Formalization

An organizational structure described as highly formalized would be one with rules and procedures to prescribe what each individual should be doing. Such organizations have written standard operating procedures, specified directives, and explicit policies. In terms of the four design decisions, formalization is the result of high specialization of labor, high delegation of authority, the use of functional departments, and wide spans of control



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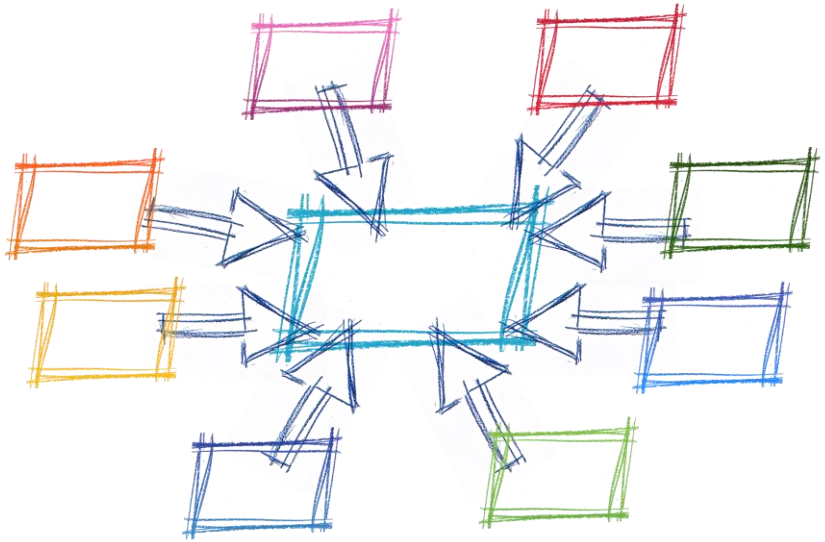
Formalization

1. High specialization of labor (as in the auto industry) is amenable to the development of written work rules and procedures. Jobs are so specialized as to leave little to the discretion of the jobholder.
2. High delegation of authority creates the need for checks on its use. Consequently, the organization writes guidelines for decision making and insists upon reports describing the use of authority.
3. Functional departments are made up of jobs with great similarities. This basis brings together jobs that make up an occupation such as accountants, engineers, and machinists. Because of the similarity of the jobs and the rather straightforward nature of the department's activities, management can develop written documents to govern those activities.
4. Wide spans of control discourage one-on-one supervision. There are simply too many subordinates for managers to keep up with on a one-to-one basis. Consequently, managers require written reports to keep them informed. Although formalization is defined in terms of written rules and procedures, we must understand how they're viewed by the employees. Some organizations have all the appearances of formalization, complete with thick manuals of rules, procedures, and policies, yet employees don't perceive them as affecting their behavior. Thus, where rules and procedures exist, they must be enforced if they're to affect behavior.

Centralization

Centralization refers to the location of decision-making authority in the hierarchy of the organization. More specifically, the concept refers to delegation of authority among the jobs in the organization. Typically, researchers and practitioners think of centralization in terms of (1) decision making and (2) control. But despite the apparent simplicity of the concept, it can be difficult to apply.



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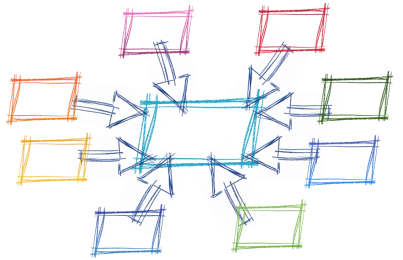
The relationships between centralization and the four design decisions are generally as follows:



1. The higher the specialization of labor, the greater the centralization. This relationship holds because highly specialized jobs do not require the discretion that authority provides.
2. The less authority that is delegated, the greater the centralization. By definition of the terms, centralization involves retaining authority in the top management jobs, rather than delegating it to lower levels in the organization.
3. The greater the use of functional departments, the greater the centralization. The use of functional departments requires that activities of the several interrelated departments be coordinated. Consequently, authority to coordinate them will be retained in top management.
4. The wider the spans of control, the greater the centralization. Wide spans of control are associated with relatively specialized jobs, which, as we've seen, have little need for authority.

Complexity

Complexity is the direct outgrowth of dividing work and creating departments. Specifically, the concept refers to the number of distinctly different job titles, or occupational groupings, and the number of distinctly different units, or departments. The fundamental idea is that organizations with many different kinds of jobs and units create more complicated managerial and organizational problems than those with fewer jobs and departments.

Complexity, then, relates to differences among jobs and units. Therefore, it's not surprising that differentiation is often used synonymously with complexity. Moreover, it has become standard practice to use the term horizontal differentiation to refer to the number of different units at the same level; vertical differentiation refers to the number of levels in the organization.

horizontal differentiation
The number of different units existing at the same level in an organization. The greater the horizontal differentiation, the more complex is the organization.

vertical differentiation
The number of authority levels in an organization. The more authority levels an organization has, the more complex is the organization.

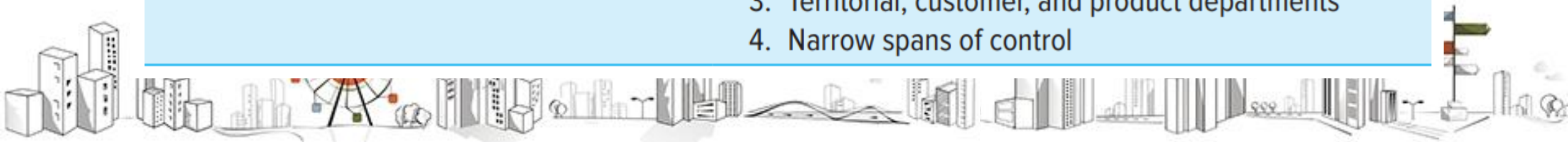
The relationships between complexity (horizontal and vertical differentiation) and the four design decisions are generally as follows:

Dimensions	Decisions
High formalization	1. High specialization 2. Delegated authority 3. Functional departments 4. Wide spans of control
High centralization	1. High specialization 2. Centralized authority 3. Functional departments 4. Wide spans of control
High complexity	1. High specialization 2. Delegated authority 3. Territorial, customer, and product departments 4. Narrow spans of control

1. The greater the specialization of labor, the greater the complexity. Specialization is the process of creating different jobs and thus more complexity. Specialization of labor contributes primarily to horizontal differentiation.
2. The greater the delegation of authority, the greater the complexity of the organization. Delegation of authority is typically associated with a lengthy chain of command (i.e., with a relatively large number of managerial levels). Thus, delegation of authority contributes to vertical differentiation.
3. The greater the use of geographic, customer, and product bases, the greater the complexity. These bases involve creating self-sustaining units that operate much like freestanding organizations. Consequently, there must be considerable delegation of authority and, thus, considerable complexity.
4. Narrow spans of control are associated with high complexity. This relationship holds because narrow spans are necessary when the jobs to be supervised are quite different one from another. A supervisor can manage more people in a simple organization than in a complex organization. The apparently simple matter of span of control can have profound effects on organizational and individual behavior. Hence, we should expect the controversy that surrounds it.

EXHIBIT 16.6 Organizational Dimensions and Organizational Decisions

Dimensions	Decisions
High formalization	1. High specialization 2. Delegated authority 3. Functional departments 4. Wide spans of control
High centralization	1. High specialization 2. Centralized authority 3. Functional departments 4. Wide spans of control
High complexity	1. High specialization 2. Delegated authority 3. Territorial, customer, and product departments 4. Narrow spans of control



Multinational Structure and Design

As we have seen previously, four design decisions regarding division of labor, delegation of authority, departmentalization, and span of control shape the design of organizational structures. These decisions, in turn, are affected by a variety of factors. Foremost among them are the social, political, cultural, legal, and economic environments in which the organization is operating. Because of their very nature, multinational corporations frequently exist in very divergent environments. A multinational corporation may be categorized as consisting of a group of geographically dispersed organizations with different national subsidiaries.

One approach to setting up a foreign subsidiary is that of replication. That is, the same organizational structure and operating policies and procedures that exist in the existing domestic organization are used. This may explain why foreign subsidiary organizational structures tend to evolve over time as the company becomes more internationalized

- Multinational companies of all types must confront a related questions: How should we structure our organization to succeed in the global marketplace? Which departmental basis should we use?
- The most prevalent departmental basis is geographical. This arrangement has national and regional managers reporting to a headquarters in the same national or regional area. Geographic-based organizations for multinational corporations (MNCs) have the same characteristics as those for domestic organizations. Each national or regional office has all the resources necessary to produce and market the product or service. This organizational form is suitable for companies that want to maintain a high level of focus on customers and speed decision making at the local level. For example, Citigroup recently reorganized itself into a geographic organizational structure to focus the firm's resources on emerging and other key markets. The goal is to increase the level of client service by "empowering the leaders of the geographic regions with the authority to make decisions on the ground."

MNCs

- MNCs having a diversified product line may find certain advantages in the productbased organizational structure. This structure assigns worldwide responsibility for a product or product line to a single corporate office, and all foreign and domestic units associated with that product report to the corporate product office.
- MNCs with very restrictive product lines such as firms in the mining industry may optimize results using the function approach. According to this structure, a corporate office for each business function such as production, marketing, and finance has authority over those functions wherever they take place throughout the world. Thus, production personnel in Europe and South America as well as North America will report to corporate officials in charge of production.75 Although MNCs share certain common managerial and organizational problems, how they deal with them will reflect their own national culture as well as the local, host-country culture.

East and West

We can summarize our discussion of how MNCs organize by describing how many Japanese firms go about it. Typically they concentrate on a relatively narrow set of business activities, unlike their typical Western counterparts that enter several lines of business. One effect of this difference is that Japanese employees perform relatively fewer specialized jobs with relatively more homogeneous skills and experiences due to the fewer business specialties to be performed. The typical Japanese manufacturing job has less range than the typical Western manufacturing job. The authority associated with each job is relatively less in Japanese firms, although the Japanese practice of participative management enables individual workers to have a say in matters that immediately affect their own jobs. Middle managers in Japanese firms are expected to initiate opportunities for workers to be involved, and they are evaluated on this criterion as well as on economic and performance criteria.

Departments in Japanese firms are more often based on function and process than on product, customer, or location. The preference for the internal-oriented bases reflects again Japanese firms' preference to do business in fewer industries such that more complex divisional firms aren't as likely to develop. The Japanese have developed the practice of creating close ties with supplier organizations and thus have avoided the necessity of vertical integration as is the case of many Western business organizations.

The differences between organizational structures in Japan and in the West can be accounted for by differences in business practices. These business practices are no doubt due to national and cultural developments in how business is done, not in how organizations are structured.

Virtual Organizations

virtual organization
A collection of geographically distributed, functionally and/or culturally diverse aggregations of individuals that are linked by electronic forms of communication.

One of the fastest-developing practices in business throughout the world involves firms in cooperative relationships with their suppliers, distributors, and even competitors. These networks of relationships enable organizations to achieve both efficiency and flexibility to exploit advantages of the mechanistic and organic organizational designs. These "virtual ave become so pervasive that some experts refer to them for 21st-century organizations. Cooperative relationships cipal organization to rely upon the smaller, closer-to-the- to sense impending changes in the environment and to local level, thus relieving the parent organization of that

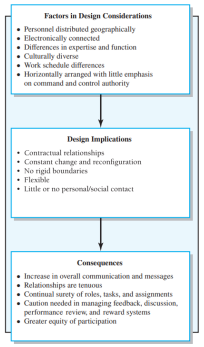
Information You Can Use

VIRTUAL INTERVIEWS: AN EMERGING TREND

Until recently, some hiring managers would screen a final set of applicants with a phone or conference call. Then the best candidates would be invited in for a face-to-face interview. A new virtual trend is emerging. Companies like Ocean Spray, Chesapeake Energy, and Walmart e-mail applicants a web link which asks them to respond to standardized interview questions while being recorded by a webcam. While virtual interviews are saving thousands of dollars in staffing costs, it remains to be seen how applicants will react to this one-way approach to structuring interviews.

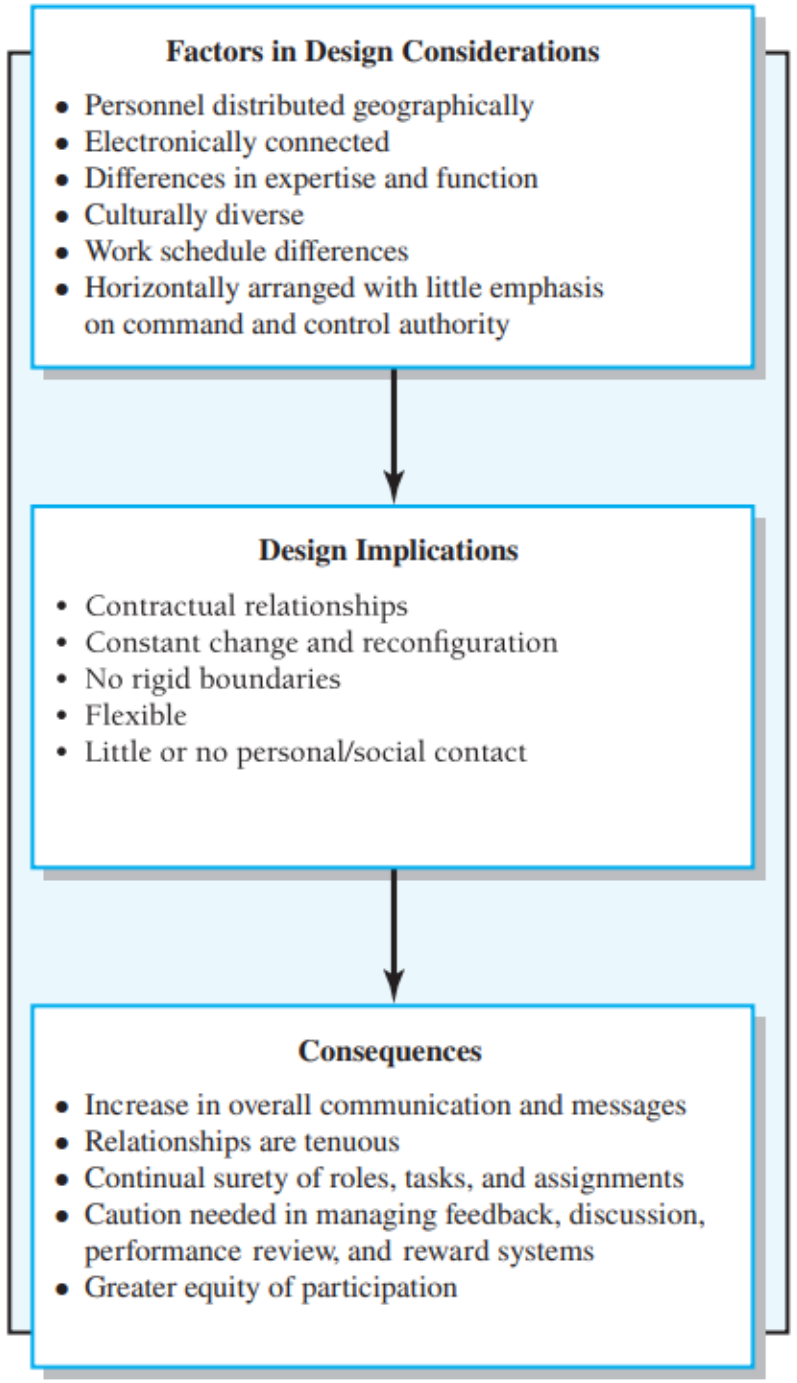
Source: Dave Zielinski, "The Virtual Interview," *HRMagazine* 57, no. 7 (July 2012), pp. 55–57.

A virtual organization



- A virtual organization (e.g., meetings, teams, offices, firms, and alliances) is a collection of geographically distributed, functionally and/or culturally diverse aggregations of individuals that is linked by electronic forms of communication.78 The virtual organization by necessity has to rely on somewhat blurred boundaries to forge relationships that are often governed by contract. The virtual unit is assembled and disassembled according to needs.
- An example of a virtual organization is Barclays' global bank. The organization is a global network created by electronically linking extant networks of small, regional banks. Customers of the regional banks feel like they are a part of a large entity, Barclays, because they are provided with worldwide services. The feeling of being part of a worldwide entity exists, as customers remain members of their local community banks as well.
- Exhibit 16.7 captures the main characteristics of virtual organizations.

EXHIBIT 16.7 Characteristics of Virtual Organization and Some Consequences



The Realities of Virtual Organizations

An organization is typically virtual to some degree.80 At one extreme, a firm is virtual to the extent that each step in the process of providing a product or service is outside the firm's boundaries. Some publishing firms typically perform manuscript selection and marketing in-house, while writing, editing, printing, and distribution are done outside the firm and in many instances through virtual connectivity.

The other extreme finds the fully integrated, mechanistic-type organization performing all aspects of management, production, sales, finance, and distribution. But even most of these types of traditional firms are making contractual and logistical arrangements to have some activities performed externally.

The Realities of Virtual Organizations

Transaction-cost theorists have studied why certain activities are kept within the firm while others are contracted or performed outside. The decisions are based on minimizing the combined cost of production and governance. If only production costs are considered, it is argued that these costs can be reduced as more production activities are performed externally. However, the costs of governance are often higher when firms purchase goods and services in the open market rather than in-house.

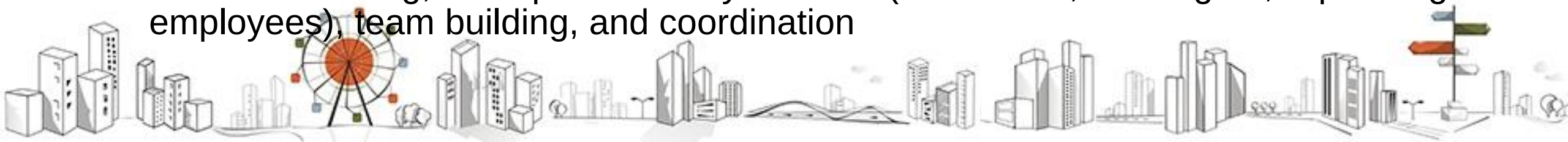
The virtual organization is distinctively different from the mechanistic, organic, or matrix forms that have hierarchy, layers of management, and face-to-face control. The line and staff arrangement in these organizational design approaches is in-house. Virtual organizations are not always the best or most appropriate arrangement. The work, expertise, and goals of the firm must be reviewed carefully. The requirements of personal contact, regular hours, in-person negotiations, and employee needs must be determined. When there is a reasonable fit among the work, expertise, goals, and requirements, then a virtual organization should be considered as an option.

Keiretsu

Virtual organizations have come a long way since they originated in Japan, where firms create alliances with other firms. These alliances take the form of cooperative agreements, consortia, and equity ownerships to establish networks of businesses. In Japan, this form of doing business is termed keiretsu and involves a very large financial institution, a very large industrial conglomerate, and smaller firms in a network of relationships that enable the large firm to produce the product and the smaller firms to supply components, do research and design, and perhaps distribute and market. The participating bank provides the financial requirements to support the network of cooperative relationships. This form of interorganizational network has enabled Japanese industry to grow without supply bottlenecks and damage to competition from domestic firms.

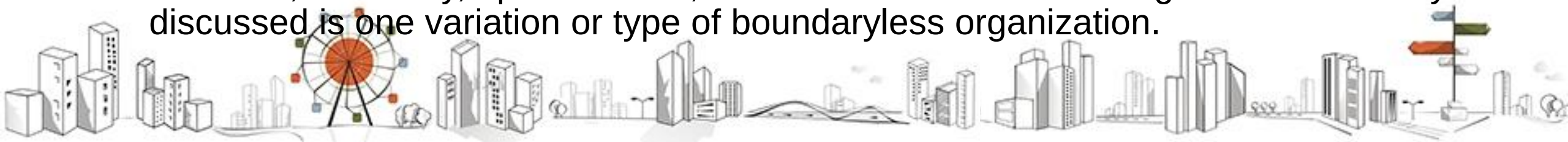
Boundaryless Organizations

- The command and control, top-down, mechanistic organizational design is orderly, specific, and relies on defined roles for employees, managers, and nonmanagers. Companies such as Motorola, Oticon A/S, and Coca-Cola are continuously attempting to minimize and, in some cases, eliminate vertical and horizontal structures, tightly defined work roles, and top-down control. They are working to achieve what is referred to as a boundaryless organization. The assumption these and other firms are making is that rigid structure and too much specificity create barriers within a firm and between a firm and its external suppliers and customers.
- The minimization of layers results in a flatter hierarchy. There is still a hierarchy but there is less distance, less separation between top-level managers and other employees. The boundaryless organization also emphasizes participative decision making, multiple-hierarchy teams (executives, managers, operating employees), team building, and coordination

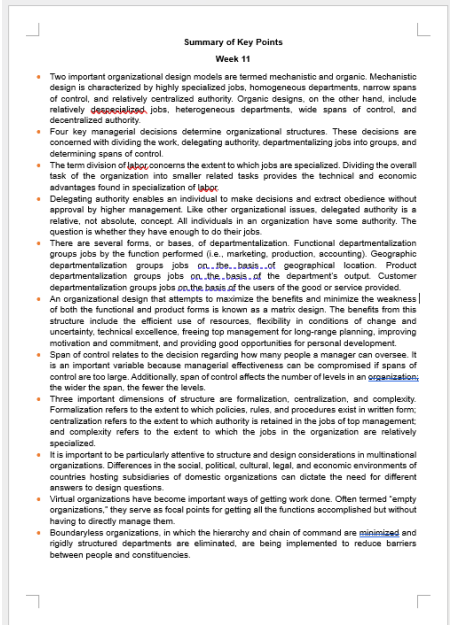


Effective boundaryless organizations

- The effective boundaryless organization breaks down barriers with external constituents and distance. Strategic alliances and telecommunicating are examples of how to break down barriers. The Japanese keiretsu relationship is an example of a vertical alliance between large corporations and their suppliers. Typically, the large business takes a minority ownership (e.g., 10 percent) in a supplier. The two organizations become bonded in a strategic partnership for their mutual gain. There is little room for communication, decision making, and strategic choice barriers in alliances. The leveraging of resources, achievement of goals, and reduction of risks are some of the reasons Coca-Cola and Apple have adopted alliances to reduce unnecessary structural barriers with external constituents.
- Conceptually, the boundaryless organization involves the breaking down of structure, hierarchy, specific roles, and distance. The virtual organization already discussed is one variation or type of boundaryless organization.



Summary of Key Points



Summary of Key Points

Week 11

- Two important organizational design models are termed mechanistic and organic. Mechanistic design is characterized by highly specialized jobs, homogeneous departments, narrow spans of control, and relatively centralized authority. Organic designs, on the other hand, include relatively despecialized jobs, heterogeneous departments, wide spans of control, and decentralized authority.
- Four key managerial decisions determine organizational structures. These decisions are concerned with dividing the work, delegating authority, departmentalizing jobs into groups, and determining spans of control.
- The term division of labor concerns the extent to which jobs are specialized. Dividing the overall task of the organization into smaller related tasks provides the technical and economic advantages found in specialization of labor.
- Delegating authority enables an individual to make decisions and extract obedience without approval by higher management. Like other organizational issues, delegated authority is a relative, not absolute, concept. All individuals in an organization have some authority. The question is whether they have enough to do their jobs.
- There are several forms, or bases, of departmentalization. Functional departmentalization groups jobs by the function performed (i.e., marketing, production, accounting). Geographic departmentalization groups jobs on the basis of geographical location. Product departmentalization groups jobs on the basis of the department's output. Customer departmentalization groups jobs on the basis of the users of the good or service provided.
- An organizational design that attempts to maximize the benefits and minimize the weakness of both the functional and product forms is known as a matrix design. The benefits from this structure include the efficient use of resources, flexibility in conditions of change and uncertainty, technical excellence, freeing top management for long-range planning, improving motivation and commitment, and providing good opportunities for personal development.
- Span of control relates to the decision regarding how many people a manager can oversee. It is an important variable because managerial effectiveness can be compromised if spans of control are too large. Additionally, span of control affects the number of levels in an organization; the wider the span, the fewer the levels.
- Three important dimensions of structure are formalization, centralization, and complexity. Formalization refers to the extent to which policies, rules, and procedures exist in written form; centralization refers to the extent to which authority is retained in the jobs of top management; and complexity refers to the extent to which the jobs in the organization are relatively specialized.
- It is important to be particularly attentive to structure and design considerations in multinational organizations. Differences in the social, political, cultural, legal, and economic environments of countries hosting subsidiaries of domestic organizations can dictate the need for different answers to design questions.
- Virtual organizations have become important ways of getting work done. Often termed "empty organizations," they serve as focal points for getting all the functions accomplished but without having to directly manage them.
- Boundaryless organizations, in which the hierarchy and chain of command are minimized and rigidly structured departments are eliminated, are being implemented to reduce barriers between people and constituencies.

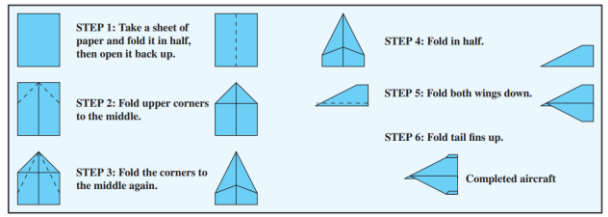
Review and Discussion Questions

1. Why would a virtual organization design be popular in the movie industry?
2. “The more authority that is delegated to nonmanagers, the less authority managers have.” Is this necessarily a true statement? Explain.
3. What barriers are reduced or eliminated by adopting a boundaryless organization?
4. What are some factors that may have important implications for structure and design decisions in multinational corporations?
5. Characterize the following organizations on the basis of their degree of formalization, centralization local, and complexity: the university you are attending, the federal government, and a franchise of a national fast-food chain.

Review and Discussion Questions

6. Can you think of a particular company or type of industry that tends toward a mechanistic design? What advantages and disadvantages could you see if that organization or industry were to adopt a more organic design form?
7. What is the difference between organizational structure and design?
8. What cues might a manager have that suggest there is a problem with the design of an organization? Is changing an existing organization different from designing a new structure? Explain.
9. Changes in organizational size affect structure. In what ways might growth (increasing size) affect an organization's structure? In what ways might consolidation (decreasing size) affect structure?
10. What are some potential advantages of a matrix design?

Exercise 16.1: *Paper Plane Corporation*



Objectives

1. To illustrate how division of labor can be efficiently structured.
2. To illustrate how a competitive atmosphere can be created among groups.

Starting the Exercise

Unlimited groups of six participants each are used in this exercise. These groups may be directed simultaneously in the same room. Approximately a full class period is needed to complete the exercise. Each person should have assembly instructions and a summary sheet, which are shown on the following pages, and ample stacks of paper (8½ by 11 inches). The physical setting should be a room large enough so that the individual groups of six can work without interference from the other groups. A working space should be provided for each group.

- The participants are doing an exercise in production methodology.
- Each group must work independently of the other groups.
- Each group will choose a manager and an inspector, and the remaining participants will be employees.
- The objective is to make paper airplanes in the most profitable manner possible.
- The facilitator will give the signal to start. This is a 10-minute, timed event utilizing competition among the groups.
- After the first round, everyone should report their production and profits to the entire group. They also should note the effect, if any, of the manager in terms of the performance of the group.
- This same procedure is followed for as many rounds as there is time.

Case-Study

Case 16.1: Will Fiat Be Successful in the United States This Time?

Organizational Design, Change, and Innovation

Case

Case 16.1: *Will Fiat Be Successful in the United States This Time?*

The launch of the Fiat *500* has created a great deal of excitement around the Fiat brand in the U.S. automobile market. This new sporty subcompact car is available in several variants including the high performance *Abarth* and luxury *Gucci* special edition models. While the recent U.S. launch of this eye-catching car is news, neither the *500* moniker nor the presence of Fiat in the world's largest automobile market is new.

Fiat left the U.S. automobile market almost 30 years ago and it was not on the best of terms. Its cars were known for having mechanical issues and customers complained of poor service support. The company's abandonment of the American market as other foreign manufacturers such as Toyota and Honda were rising in prominence not only highlighted Fiat's quality issues but also their lack of infrastructure and organization in the country.

The adage that "time heals all wounds" may apply to Fiat's reputation in the United States. Most potential buyers of the recently launched *500* will have never seen a Fiat from the company's previous unsuccessful foray into the American automobile market that ended with the Italian car company folding up shop in the '80s.

In fact, Fiat's recent reentry into the United States was one of scale and strength and as a potential savior for Chrysler Group LLC. In 2009, the struggling American automaker largely emerged from a government-brokered bankruptcy procedure through an alliance with Fiat. The agreement gave Fiat a 20 percent ownership interest in Chrysler that has since grown to well over 50 percent ownership. Fiat is not just another foreign car company selling its automobiles in the United States; it is the company that is helping to revitalize Chrysler's sales and long-term viability.

When the Fiat-Chrysler strategic alliance was initially announced, industry pundits projected that Fiat designs would be offered in Chrysler dealerships while Fiat exploited a relatively weak dollar by manufacturing in the United States. The rollout hasn't quite happened as expected.

Fiat has entered the American market as a separate brand with a single model, the *500*, a car that was launched several years ago in Europe. In many ways the *500* launch in the United States was similar to the introduction of BMW's *Mini Cooper*. Both of the cars were stylized based upon the iconic shapes of their predecessors, and like Mini's formation of a separate dealer network from its parent BMW, Fiat has formed a separate network of dealers from Chrysler.

While there are several variants of the *500*, Fiat dealers have only a single car model to sell and no firm timeline for the introduction of future models. Chrysler dealerships have three cars of their own: the *200*, *200* convertible and the *300*, along with a minivan in their showrooms. Although current year Chrysler sales have increased, largely attributed to pentup demand, the intentional separation of the Fiat brand into independent dealerships has limited any direct benefit from the Fiat-Chrysler partnership for Chrysler dealers. Meanwhile, Fiat sales have begun to take off. The 2012 *Abarth* sold out less than one month after its launch, leaving potential customers to choose another version of the *500*, be put on a waiting list for the next model year, or leave the dealership in search of another vehicle. The addition of the new car is having only a marginal impact on Chrysler's U.S. workforce; the engine of the Fiat *500* is manufactured in Michigan, but the transmission is made in Italy, and assembly of the vehicle is performed in Mexico.

While the Chrysler brand may not yet have benefitted from the partnership with its new co-owner, Chrysler's sister brand, Dodge, has done so. The newly launched Dodge *Dart*, a model name reintroduced after a 36-year absence, has been designed on a modified Fiat platform allowing for significant savings in engineering costs and reduced time to market. This vehicle, which gets 40 miles per gallon (MPG), exemplifies the potential success of the Fiat-Chrysler partnership.

CEO Sergio Marchionne merged the two companies into Fiat Chrysler Automobiles in late 2014, reducing the total number of vehicle platforms and brands sold by the new firm. The merged company began trading on Wall Street under the ticker FCAU that same year as a way to establish itself as a leading global player in the auto industry. More recently, Marchionne talked up a possible consolidation in the U.S. auto industry, with Fiat Chrysler joining up with one of several suitors rumored to include Ford, Toyota, and Volkswagen. He believes consolidation in the industry would help reduce the prohibitive costs of developing more technologically advanced vehicles.

Questions

1. As an organization, what must Fiat do to ensure its reentry into the U.S. market does not end in the same way as its previous entry did in the 1980s?
2. Fiat has reintroduced itself to the U.S. through various means, a new car brand, its namesake Fiat, and sharing its technology to launch a new Dodge branded vehicle. From an organizational perspective, which one of these approaches makes the most sense? Justify your answer.
3. Recently, Marchionne told Fiat Chrysler dealers they now have the option of closing their separate Fiat showrooms and selling the vehicles alongside the Chrysler, Jeep, and Dodge brands. Do you think this signals the end of the sporty Fiat brand as the organization looks for a possible suitor? Explain.

Sources: Written by Dr. Michael Dutch, Greensboro College, Greensboro, North Carolina (2012). "Ford Isn't Interested in a Merger with Fiat Chrysler," *Fortune*, April 25, 2016, http://fortune.com; "Fiat Chrysler CEO Says He'd Only Merge with These 3 Automakers," *Fortune*, April 15, 2016, http://fortune.com; Jeff Bennett and Christina Rogers, "Fiat Chrysler Tells U.S. Dealers They Can Close Standalone Fiat Showrooms," *The Wall Street Journal*, March 9, 2016, http://www.wsj.com; Mark Phelan, "Marchionne Reshapes Fiat Chrysler for Merger or Sale," *Detroit Free Press*, February 21, 2016, http://www.freep.com; "Fiat Chrysler Crowns Merger with Wall Street Debut," *CNBC*, October 13, 2014, http://www.cnbc.com; "Fiat 500 Abarth Sells Out in US," *New York Daily News*, June 6, 2012, http://nydailynews.com; Steven Smith, "2012 Fiat 500 Abarth Test Drive," *The Chicago Tribune*, June 5, 2012, http://www.chicagotribune.com; Gilles Castonguay, "Fiat Delays Launch of Two Models," *The Wall Street Journal*, June 1, 2012, http://online.wsj.com; Craig Trudell and Elhardt Tommaso, "Dodge Dart Is Newest Offering from Chrysler-Fiat," *The San Francisco Chronicle (SF Gate)*, January 10, 2012, http://www.sfgate.com; Michael de la Merced and Micheline Maynard, "Fiat Completes Takeover of Chrysler," *The New York Times*, June 11, 2009, http://www.nytimes.com; Audo Lagorce, "Can Fiat Re-write Its American History?" *MarketWatch*, May 21, 2009, http://articles.marketwatch.com.

Thank you