## **Contents**

Preface 17

Chapter 1	Organizations and Organizational Effectiveness 23 What Is an Organization? 23
	How Does an Organization Create Value? 25
	Why Do Organizations Exist? 27  To Increase Specialization and the Division of Labor 27  To Use Large-Scale Technology 28  To Manage the Organizational Environment 28  To Economize on Transaction Costs 28
	To Exert Power and Control 29
	Organizational Theory, Design, and Change 30 Organizational Structure 30 Organizational Culture 31 Organizational Design and Change 31 The Importance of Organizational Design and Change 33 Dealing with Contingencies 33 Gaining Competitive Advantage 34 Managing Diversity 36 The Consequences of Poor Organizational Design 36 How Do Managers Measure Organizational Effectiveness? 38 The External Resource Approach: Control 39 The Internal Systems Approach: Innovation 39 The Technical Approach: Efficiency 40
	Measuring Effectiveness: Organizational Goals 41
	The Plan of This Book 42 Organizational Design 44 Organizational Change 44
	Summary 45 • Discussion Questions 45 Organizational Theory in Action: Practicing Organizational Theory 46 Open Systems Dynamics 46 The Ethical Dimension #1 46 Making the Connection #1 46 Analyzing the Organization: Design Module #1 46 Assignment 47
Chapter 2	Stakeholders, Managers, and Ethics 50 Organizational Stakeholders 50

Inside Stakeholders 50 Outside Stakeholders 52

Organizational Effectiveness: Satisfying Stakeholders' Goals and Interests 56

Competing Goals 57
Allocating Rewards 58

```
Top Managers and Organizational Authority 59
                  The Chief Executive Officer 61
                  The Top-Management Team 62
                  Other Managers 63
               An Agency Theory Perspective 63
                  The Moral Hazard Problem 63
                  Solving the Agency Problem 64
               Top Managers and Organizational Ethics 65
                  Ethics and the Law 66
                  Ethics and Organizational Stakeholders 67
                  Sources of Organizational Ethics 69
                  Why Do Ethical Rules Develop? 71
                  Why Does Unethical Behavior Occur?
                                                   73
               Creating an Ethical Organization
                  Designing an Ethical Structure and Control System 75
                  Creating an Ethical Culture 75
                  Supporting the Interests of Stakeholder Groups 75
               Summary 76 • Discussion Questions 77

    Organizational Theory

               in Action: Practicing Organizational Theory 77
                  Creating a Code of Ethics 77
                  The Ethical Dimension #2 77
                  Making the Connection #2 77
                  Analyzing the Organization: Design Module #2 77
                  Assignment 77
Chapter 3
              Organizing in a Changing Global Environment 81
              What Is the Organizational Environment? 81
                  The Specific Environment 83
                 The General Environment 85
                 Sources of Uncertainty in the Organizational Environment 87
              Resource Dependence Theory 91
              Interorganizational Strategies for Managing Resource Dependencies 92
              Strategies for Managing Symbiotic Resource Interdependencies 93
                  Developing a Good Reputation 93
                 Cooptation 94
                 Strategic Alliances
                 Joint Venture 97
                 Merger and Takeover 98
              Strategies for Managing Competitive Resource Interdependencies 98
                 Collusion and Cartels 99
                 Third-Party Linkage Mechanisms 100
                 Strategic Alliances 100
                 Merger and Takeover 100
              Transaction Cost Theory 101
                 Sources of Transaction Costs 102
                 Transaction Costs and Linkage Mechanisms 103
                 Bureaucratic Costs 104
                 Using Transaction Cost Theory to Choose an Interorganizational Strategy 104
              Summary 108 • Discussion Questions 109 • Organizational Theory
              in Action: Practicing Organizational Theory 109
                  Protecting Your Domain 109
                  The Ethical Dimension #3 109
                 Making the Connection #3 110
                 Analyzing the Organization: Design Module #3 110
                 Assignment 110
```

Part 2 C	organizational Design 114
Chapter 4	Basic Challenges of Organizational Design 114 Differentiation 114 Organizational Roles 116 Subunits: Functions and Divisions 117 Differentiation at the B.A.R. and Grille 118 Vertical and Horizontal Differentiation 119 Organizational Design Challenges 119
	Balancing Differentiation and Integration 121 Integration and Integrating Mechanisms 121 Differentiation versus Integration 124
	Balancing Centralization and Decentralization 125  Centralization versus Decentralization of Authority 125
	Balancing Standardization and Mutual Adjustment 128 Formalization: Written Rules 128 Socialization: Understood Norms 129 Standardization versus Mutual Adjustment 130
	Mechanistic and Organic Organizational Structures 131
	Mechanistic Structures 132 Organic Structures 132 The Contingency Approach to Organizational Design 134
	Lawrence and Lorsch on Differentiation, Integration, and the Environment 134 Burns and Stalker on Organic versus Mechanistic Structures
	and the Environment 137
	Summary 138 • Discussion Questions 139 • Organizational Theory in Action: Practicing Organizational Theory 139  Growing Pains 139  Making the Connection #4 139  The Ethical Dimension #4 139
	Analyzing the Organization: Design Module #4 139 Assignment 140
Chapter 5	Designing Organizational Structure: Authority and Control 143
	Authority: How and Why Vertical Differentiation Occurs 143
	The Emergence of the Hierarchy 143 Size and Height Limitations 144
	Problems with Tall Hierarchies 146
	The Parkinson's Law Problem 149
	The Ideal Number of Hierarchical Levels: The Minimum Chain of Command 149 Span of Control 150
	Control: Factors Affecting the Shape of the Hierarchy 152 Horizontal Differentiation 152 Centralization 154 Standardization 155
	The Principles of Bureaucracy 156
	The Advantages of Bureaucracy 159
	Management by Objectives 161
	The Influence of the Informal Organization 162
	IT, Empowerment, and Self-Managed Teams 163
	Summary 165 • Discussion Questions 165 • Organizational Theory in Action: Practicing Organizational Theory 166

How to Design a Hierarchy 166 The Ethical Dimension #5 166

Making the Connection #5 166 Analyzing the Organization: Design Module #5 166 Assignment 166 **Designing Organizational Structure: Specialization** and Coordination Functional Structure 170 Advantages of a Functional Structure 172 Control Problems in a Functional Structure 172 Solving Control Problems in a Functional Structure 173 From Functional Structure to Divisional Structure 174 Moving to a Divisional Structure 176 Divisional Structure I: Three Kinds of Product Structure 176 Product Division Structure 176 Multidivisional Structure 178 Product Team Structure 183 Divisional Structure II: Geographic Structure 185 Divisional Structure III: Market Structure 186 Matrix Structure 188 Advantages of a Matrix Structure 189 Disadvantages of a Matrix Structure 189 The Multidivisional Matrix Structure 190 Hybrid Structure 192 Network Structure and the Boundaryless Organization 193 Advantages of Network Structures 193 Disadvantages of Network Structures 194 The Boundaryless Organization 194 E-Commerce 195 Summary 196 • Discussion Questions 197 • Organizational Theory in Action: Practicing Organizational Theory 197 Which New Organizational Structure? 197 The Ethical Dimension #6 197 Making the Connection #6 197 Analyzing the Organization: Design Module #6 197 Assignment 197 Creating and Managing Organizational Culture What Is Organizational Culture? 201 Differences in Global Values and Norms 204 How Is an Organization's Culture Transmitted to Its Members? 206 Socialization and Socialization Tactics 206 Stories, Ceremonies, and Organizational Language 209 Where Does Organizational Culture Come From? 211 Characteristics of People within the Organization 211 Organizational Ethics 213 Property Rights 215 Organizational Structure 218 Can Organizational Culture Be Managed? 219 Social Responsibility 221 Approaches to Social Responsibility 221 Why Be Socially Responsible? 222 Summary 224 • Discussion Questions 225 • Organizational Theory in Action: Practicing Organizational Theory 225 Developing a Service Culture 225 The Ethical Dimension #7 225

Chapter 6

**Chapter 7** 

Making the Connection #7 226 Analyzing the Organization: Design Module #7 Assignment 226	226
Organizational Design and Strat Environment 229	egy in a Changing Global
Strategy and the Environment 229	
Sources of Core Competences 230	

## Four Levels of Strategy 233 Functional-Level Strategy 235

Strategies to Lower Costs or Differentiate Products 235

Functional-Level Strategy and Structure 237.

Global Expansion and Core Competences 232

Functional-Level Strategy and Culture 238

#### **Business-Level Strategy 239**

Strategies to Lower Costs or Differentiate Products 240

Focus Strategy 241

Chapter 8

Business-Level Strategy and Structure 241

Business-Level Strategy and Culture 244

#### Corporate-Level Strategy 246

Vertical Integration 247

Related Diversification 248

Unrelated Diversification 248

Corporate-Level Strategy and Structure 249

Corporate-Level Strategy and Culture 251

#### Implementing Strategy across Countries 252

Implementing a Multidomestic Strategy 254

Implementing International Strategy 254

Implementing Global Strategy 255

Implementing Transnational Strategy 256

Summary 257 • Discussion Questions 258 • Organizational Theory

in Action: Practicing Organizational Theory 258

What Kind of Supermarket? 258

The Ethical Dimension #8 258

Making the Connection #8 258

Analyzing the Organization: Design Module #8 259

Assignment 259

# Chapter 9 Organizational Design, Competences, and Technology 262 What Is Technology? 262

#### Technology and Organizational Effectiveness 264

#### Technical Complexity: The Theory of Joan Woodward 266

Small-Batch and Unit Technology 266

Large-Batch and Mass Production Technology 269

Continuous-Process Technology 270

Technical Complexity and Organizational Structure 270

The Technological Imperative 272

#### Routine Tasks and Complex Tasks: The Theory of Charles Perrow 272

Task Variability and Task Analyzability 273

Four Types of Technology 274

Routine Technology and Organizational Structure 275

Nonroutine Technology and Organizational Structure 277

#### Task Interdependence: The Theory of James D. Thompson 277

Mediating Technology and Pooled Interdependence 278

Long-Linked Technology and Sequential Interdependence 280

Intensive Technology and Reciprocal Interdependence 281

## From Mass Production to Advanced Manufacturing Technology Advanced Manufacturing Technology: Innovations in Materials Technology 285 Computer-Aided Design 286 Computer-Aided Materials Management 286 Just-in-Time Inventory Systems 287 Flexible Manufacturing Technology and Computer-Integrated Manufacturing Summary 289 • Discussion Questions 290 • Organizational Theory in Action: Practicing Organizational Theory 290 Choosing a Technology 290 The Ethical Dimension #9 291 Making the Connection #9 291 Analyzing the Organization: Design Module #9 291 Assignment 291 Types and Forms of Organizational Change 295

#### Organizational Change Part 3

### Chapter 10

What Is Organizational Change? 295

Targets of Change 296

#### Forces for and Resistance to Organizational Change 297

Forces for Change 297 Resistances to Change 300 Organization-Level Resistance to Change 300 Group-Level Resistance to Change 301 Individual-Level Resistance to Change 302 Lewin's Force-Field Theory of Change 302

### **Evolutionary and Revolutionary Change in Organizations** 303

Developments in Evolutionary Change: Sociotechnical Systems Theory 303 Total Quality Management 304 Flexible Workers and Flexible Work Teams 307 Developments in Revolutionary Change: Reengineering 307 E-Engineering 312 Restructuring 312 Innovation 313

#### Managing Change: Action Research 313

Diagnosing the Organization 314 Determining the Desired Future State 314 Implementing Action 315 Evaluating the Action 316 Institutionalizing Action Research 316

### Organizational Development 317

OD Techniques to Promote Change 319 Summary 321 • Discussion Questions 322 • Organizational Theory in Action: Practicing Organizational Theory 322 Managing Change 322 Making the Connection #10 323 The Ethical Dimension #10 323

Chapter 11 Organizational Transformations: Birth, Growth, Decline, and Death 327

Analyzing the Organization: Design Module #10 323

OD Techniques to Deal with Resistance to Change 317

The Organizational Life Cycle 327

Organizational Birth 328

Developing a Plan for a New Business 329

```
A Population Ecology Model of Organizational Birth 331
                   Number of Births 332
                   Survival Strategies 333
                   The Process of Natural Selection 334
                The Institutional Theory of Organizational Growth 336
                   Organizational Isomorphism 337
                   Disadvantages of Isomorphism 338
                Greiner's Model of Organizational Growth 338
                   Stage 1: Growth through Creativity 339
                   Stage 2: Growth through Direction 340
                   Stage 3: Growth through Delegation 340
                   Stage 4: Growth through Coordination 341
                   Stage 5: Growth through Collaboration 342
                Organizational Decline and Death 343
                   Effectiveness and Profitability 343
                   Organizational Inertia 345
                   Changes in the Environment 346
                   Weitzel and Jonsson's Model of Organizational Decline 347
                Summary 350 • Discussion Questions 351 • Organizational Theory
                in Action: Practicing Organizational Theory 351
                   Growing Pains 351
                   Making the Connection #11 351
                   The Ethical Dimension #11 351
                   Analyzing the Organization: Design Module #11 352
                   Assignment 352
                Decision Making, Learning, Knowledge Management,
Chapter 12
                and Information Technology
                Organizational Decision Making 356
                Models of Organizational Decision Making 357
                   The Rational Model 357
                   The Carnegie Model 359
                   The Incrementalist Model 361
                   The Unstructured Model 361
                   The Garbage-Can Model 362
                   The Nature of Organizational Learning
                   Types of Organizational Learning 364
                   Levels of Organizational Learning 365
                Knowledge Management and Information Technology
                Factors Affecting Organizational Learning 371
                   Organizational Learning and Cognitive Structures 372
                   Types of Cognitive Biases 372
                   Cognitive Dissonance 372
                   Illusion of Control 373
                   Frequency and Representativeness 373
                   Projection and Ego-Defensiveness 374
                   Escalation of Commitment 374
                Improving Decision Making and Learning 375
                   Strategies for Organizational Learning 375
                   Using Game Theory 376
                   Nature of the Top-Management Team 378
                   Devil's Advocacy and Dialectical Inquiry 379
                   Collateral Organizational Structure 380
                Summary 381 • Discussion Questions 382 • Organizational Theory
                in Action: Practicing Organizational Theory 382
```

Making the Connection #12 382 The Ethical Dimension #12 382 Analyzing the Organization: Design Module #12 382 Assignment 383 Innovation, Intrapreneurship, and Creativity 388 Chapter 13 Innovation and Technological Change 388 Two Types of Innovation 388 Protecting Innovation through Property Rights 390 Innovation, Intrapreneurship, and Creativity 392 Entrepreneurship as "Creative Destruction" Innovation and the Product Life Cycle 394 Managing the Innovation Process 396 Project Management 396 Stage-Gate Development Funnel 398 Using Cross-Functional Teams and a Product Team Structure 399 Team Leadership 401 Skunk Works and New Venture Divisions 402 Joint Ventures 403 Creating a Culture for Innovation 403 Innovation and Information Technology 405 Innovation and Information Synergies IT and Organizational Structure and Culture 407 Summary 408 • Discussion Questions 409 • Organizational Theory in Action: Practicing Organizational Theory 409 Managing Innovation 409 The Ethical Dimension #13 409 Making the Connection #13 410 Analyzing the Organization: Design Module #13 410 Managing Conflict, Power, and Politics 413 Chapter 14 What Is Organizational Conflict? 413 Pondy's Model of Organizational Conflict 416 Stage 1: Latent Conflict 416 Stage 2: Perceived Conflict 418 Stage 3: Felt Conflict 419 Stage 4: Manifest Conflict 419 Stage 5: Conflict Aftermath 420 Managing Conflict: Conflict Resolution Strategies 421 Acting at the Level of Structure 421 Acting at the Level of Attitudes and Individuals 422 What Is Organizational Power? 423 Sources of Organizational Power 424 Authority 424 Control over Resources 425 Control over Information 426 Nonsubstitutability 426 Centrality 427 Control over Uncertainty 428 Unobtrusive Power: Controlling the Premises of Decision Making 428 Using Power: Organizational Politics 429 Tactics for Playing Politics 429 The Costs and Benefits of Organizational Politics 431

Store Learning 382

Summary 434 • Discussion Questions 434 • Organizational Theory in Action: Practicing Organizational Theory 435

Managing Conflict 435

The Ethical Dimension #14 435

Making the Connection #14 435

Analyzing the Organization: Design Module #14 435

#### Case Studies 439

Supplemental Case Map 439

Assignment 435

Case 1 United Products, Inc. 441

Jeffrey C. Shuman

Case 2 The Paradoxical Twins: Acme and Omega Electronics 450

John F. Veiga

Case 3 How SAP's Business Model and Strategies Made It the Global Business Software Leader 453

Gareth R. Jones

Case 4 The Scaffold Plank Incident 461

Stewart C. Malone and Brad Brown

Case 5 Beer and Wine Industries: Bartles & Jaymes 463
Per V. Jenster

Case 6 Bennett's Machine Shop, Inc. 469

Arthur Sharplin

Case 7 Southwest Airlines 481

Case 8 The Rise and Fall of Eastman Kodak: How Long Will It Survive Beyond 2011? 485

Gareth R. Jones

Case 9 Philips NV 496

Charles W. L. Hill

Case 10 "Ramrod" Stockwell 498

Charles Perrow

Company Index 502 Name Index 505 Subject Index 507