Kimberly-Clark eventually presented a new and different organizational structure in early 2004. Rather than organize products by the “grow, sustain, and fix” categories, management announced that it would organize around personal care, washroom products, and emerging markets. Specifically, management planned to combine the company’s North American and European personal care groups under one organizational unit. The same would happen for products related to the washroom business. In addition, management planned to create an “emerging markets” business unit to maximize the growth of all Kimberly-Clark’s products in Asia, Latin America, and Eastern Europe.

Questions
1. Why would Kimberly-Clark executives restructure the company based on “grow, sustain, and fix” categories? What disadvantages might result from such a structure?
2. Was the organizational structure presented by Kimberly-Clark executives in 2004 better than the first structure proposed? Why or why not?

Organizational Structure and Design

Learning Objectives

After studying this chapter, you should be able to:

- Explain the concepts of organizational structure and design.
- Explain the concepts of differentiation and integration and their role in organizational structure and design.
- Describe the concepts of formalization, informalization, centralization, and decentralization and discuss their interrelationships.
- Identify the common structures used by organizations and describe the strengths and weaknesses of each of these structures.
- Understand how network structures help firms manage their value chain activities and contribute to achieving a competitive advantage.
- Describe how environmental factors and the organization’s strategy influence organizational structure.
- Explain the types of organizational structure important for firms to use when operating in international markets.
Managerial Challenges from the Front Line

Management style: Lead by example

Pet peeve: Being stuck in heavy traffic

For over 16 years, Luiz Freire has worked at Halliburton, one of the largest engineering-construction and oilfield services companies in the world. Halliburton is known for using innovative technology and for providing high-quality service to its customers.

Freire is currently a senior regional manager for Halliburton's Latin America energy group. Halliburton is a market leader in the provision of well-site services, and is a large multinational company with $22.6 billion in revenues and more than a 10 percent return on those revenues in 2006.

Freire's job requires that he oversee the application of appropriate administrative policies and procedures on Halliburton's various projects in Latin American countries. He has matrix responsibility for approximately 500 people across an eight-country region where Halliburton currently has projects in Latin America. Thus, he has major responsibilities for Halliburton's activities in this region. However, Halliburton uses a matrix organization structure so he shares project responsibility with the company's country managers and team managers, who are responsible for technical excellence.

All projects are evaluated after their completion using Halliburton's "Done Right" index. The projects are rated on five criteria. The criteria include meeting the project's objectives, incurring no accidents, finishing on time, and achieving customer satisfaction. Each year managers are expected to achieve at least a 96 percent rating across all of the company's projects, which is a high standard. This requires the various managers in the matrix organization to cooperate effectively.

Name: Luiz Freire
Position: Senior Regional Manager Latin America, Halliburton
Alma mater: University of Phoenix (BA); currently working on an MBA in Texas A&M University’s Executive MBA program
Outside work activities: Spending time with my family; sailing on the ocean
First job out of school: Owned and operated a landscaping firm
Business book reading now: All books assigned in the EMBA program
Hero: Bill Gates, who started and built a multibillion-dollar company and now shares his wealth through the Gates Foundation to support quality secondary education and fight AIDS across the world, among other social needs.
Motto to live by: Be an example for my children and others
What drives me: To be a successful manager with principles
and work closely together in order to meet this standard.

Freire recounts a recent challenge he faced in the Latin American region: A competitor obtained a large contract but did not have the resources, especially the human resources, to fulfill the requirements of the contract. Because of this situation, the competitor hired “headhunter” firms in an attempt to “poach” employees from Halliburton across the Latin America region. The headhunters even stalked Halliburton’s employees where they gathered and ate meals! The firm targeted Halliburton because of its market-leadership position and high-quality workforce. This situation presented a special challenge because of the importance of high-quality human capital in this business to deliver technology-intensive and high-quality customer service. Thus, Freire and his cohort managers in the matrix sprang into action to respond to this critical challenge.

The managerial profile of Luiz Freire shows the complex environment in which firms such as Halliburton must operate today. Consider, for example, the fact that Freire manages over 500 people across an eight-country region in Latin America. Although languages and cultures are similar across most Latin American countries (Brazilians speak Portuguese, and the other countries largely speak some form of Spanish), working in eight countries means dealing with eight different governments and unique rules and regulations. Halliburton’s structure is very important when it comes to managing the firm’s operations and diverse staff members. Although the structure has advantages and disadvantages, if managers like Freire establish good working relationships with their country and team managers, they will better deal with the challenge from a competitor that he and Halliburton encountered in Latin America.

Firms should be structured effectively to survive and prosper. A firm’s structure can determine the success or failure of its strategy and its overall performance. Recent research shows that for a firm to perform at its optimal level, its structure needs to closely fit the environment in which it must operate. For example, a firm operating in dynamic environments like those in most Latin American countries requires a structure that allows flexibility to deal with unexpected challenges—challenges like those such as Freire described in his experience with Halliburton. A firm operating in less dynamic economic environments can and should usually be more formally structured for efficiency purposes. As we have discussed in previous chapters, the firm’s strategy must be carefully implemented for it to be successful. How the strategy gets implemented is largely a question of how managers organize the firm and its activities; in other words, what they determine to be the firm’s structure. Additionally, the centralization or decentralization of a firm’s structure also affects the implementation of its overall strategy and the strategy of its divisions. Sometimes a firm’s structure affects the very strategy it should choose.

An increasingly common structure used by organizations today is a network structure (which we discuss in more detail later in this chapter). An example is when a firm decides to outsource its manufacturing operations, as Nike and many other athletic shoemakers do, and it must establish a network structure allowing it to maintain close contact with the firms to which it is outsourcing the work. The company also might need to maintain close relationships with a number of suppliers to ensure the quality and timely supply of goods.
Because organizations often have many alliances, a network structure becomes important for implementing this type of cooperative strategy.

It is important for current and future managers to understand the fundamentals of organizational design and structure so that they can better prepare for implementing structures to make them effective. There are usually multiple structural options. Consequently, it is important for them to understand common organizational structures and the general advantages and disadvantages of each. This includes the principles linking particular structures, organizational strategy, and the external environment and the key factors that determine a good fit among these elements. Finally, managers must be able to apply this knowledge in planning and implementing appropriate organizational structures.

**Principles of Organizational Structure**

A firm’s organizational structure can be defined as the sum of the ways an organization divides its labor into distinct tasks and then coordinates them. The structure provides the blueprint for the reporting relationships, controls, authority and decision making within the organization. Organizational design is the process of assessing the organization’s strategy and environmental demands and determining the appropriate organizational structure.

Often, organizational structure is discussed in terms of organizational charts. Organizational charts illustrate relationships among units and lines of authority among supervisors and subordinates through the use of labeled boxes and connecting lines. For example, Exhibit 7.1 shows the organizational chart of Suncor Energy. Although organizational charts provide a view of an organization’s structure, it does not show the complete organizational structure. An organization’s structure is more complex than what a chart can depict. Understanding the principles of organizational structure and design is the key to correctly interpreting organizational charts while simultaneously being aware of an organization’s other structural characteristics, which are less visible but are still important.

The base of an organization’s structure and design includes people and activities. The one hand, all but the smallest of organizations have people performing different tasks. Even a small organization requires some differentiation and specialization to get tasks accomplished. On the other hand, each of the people performing different tasks must be integrated to meet the needs of the customers and the objectives of the organization. Balancing people and tasks and integrating them represent the primary challenges of organizational structure and design. Fundamentally, the “right” structure that achieves the “right” balance between differentiation and integration is a function of the demands of the environment and the organization’s strategy.

To focus on this basic challenge of organizational structure and design, we first examine some of the core elements of organizing and then explore the most common organizational structures. Finally, we discuss the challenge of designing structures that can fit the changing demands of the environment and the organization’s strategy.

**Differentiation**

An important dimension of the organizing process is differentiation. Differentiation is the extent to which tasks are divided into subtasks and performed by individuals with specialized skills. The main benefit of differentiation is greater specialization of knowledge and
skills. For example, because of the complexity of building a commercial jetliner, Boeing has engineers who specialize in designing wings and others who design airplane doors. Even among those who design airplane doors, some focus primarily on designing the door hinges, whereas others focus on designing the locking mechanisms that keep the doors sealed at 35,000 feet. This differentiation by task is typically referred to as task differentiation.

The nature of differentiation is not limited just to the tasks people perform, but can also involve the way employees think. This is called cognitive differentiation. Cognitive differentiation is the extent to which people in different units within the organization think about things in different ways and the extent to which people think about similar things differently. For example, accountants typically think about assets and liabilities, whereas marketing managers focus on brand image and market share. However, these two groups might also think about the same thing differently. Accountants might think about the organization’s performance in terms of financial results, whereas marketers might think about the organization’s performance in terms of customer satisfaction and number of products sold.

Differentiation is important for several reasons. First, the firm must complete each of the specialized tasks in order for it to serve its customers. Moreover, the company wants these tasks performed especially well to serve the customer better than competitors do. In this way, the firm achieves a competitive advantage. Specialization also allows people to develop high levels of expertise in specific tasks in order to perform them especially well. In addition, research has shown that differentiation and the expertise developed from specialization helps firms to develop more innovative products and services to satisfy their customers.

Although differentiation does bring greater specialization, it often brings a challenge in integrating the various specialized capabilities to deliver a product or service to the customer. Suppose both design engineers and manufacturing personnel at Boeing need to work together to ensure that a newly designed 777 door operates properly. Greater specialization makes this coordination more difficult because designers might think about door performance in terms of design sophistication, whereas manufacturing managers might think about door performance in terms of the ease of making and installing the door on the plane. If Boeing has a door that is well designed but difficult and expensive to install, it may suffer potential undesirable consequences. It may end up with an expensive door that reduces profits because it is costly to install. Or, it might end up with a door that doesn’t operate properly because of mismatches between design and assembly. This example suggests the importance of integration.

Integration
Integration is the extent to which various parts of the organization interact, cooperate, and coordinate with each other. The primary benefit of integration is the coordinated actions of different people and activities to achieve a desired organizational objective. To develop innovation from the differentiation discussed in the previous section requires effective coordination to achieve integration of the multiple people and activities. Often, to achieve a high level of coordination requires a boundary spanner. A boundary spanner is a person who is either formally or informally designated to coordinate the activities across units or even sometimes across organizations. The role of the boundary spanner is to build effective relationships between the groups involved. One of the driving forces of integration is interdependence. Interdependence is the degree to which each unit or each person depends on other units or people to accomplish a required task.

There are three types of interdependence. Pooled interdependence occurs when several groups are largely independent in their functions but collectively contribute to a common output. For example, two independent product divisions in the same company might each sell products to the same hospital to meet the customer’s overall needs. Sequential interdependence exists when the outputs of one group become the inputs of another group. For example, the raw materials of aluminum provided by the firm’s purchasing department become the inputs of the firm’s press department. That department then shapes the aluminum sheets for doors and its outputs become the inputs of the door assembly department.
Reciprocal interdependence exists when two or more groups depend on each other for inputs. For example, at Boeing the new-product development department relies on the marketing research department for product ideas to investigate, and marketing research relies on new-product development for new products to test on customers. In principle, the greater the interdependence, the greater the need for cooperation, and, thus, the more important it is to achieve integration.

Another factor that can influence the need for integration is uncertainty. Uncertainty for a firm refers to the extent to which the firm cannot forecast accurately future input, process, and output factors. The more difficult it is to accurately forecast these factors, the greater uncertainty the firm faces. When there is greater uncertainty, there is greater need for integration and coordination because as events unfold, individuals and organizational units have to coordinate in real time their responses to the events.

Integration and coordination can be achieved through a variety of mechanisms. The appropriateness of each mechanism relates to the level and type of interdependence and the extent of uncertainty in the environment. Among these mechanisms are rules, goals, and values.

**RULES** Rules establish guidelines for behavior and consequences under specific conditions. Basically, rules are the standard operating procedures (SOP) for the organization. In general, the more task independence that exists within the organization, the more useful rules are as an integration mechanism. In contrast, the more task interdependence and uncertainty that exist, the less useful rules are as an integration mechanism. For example, a manager in a promotion department of a record company would find it difficult to use rules for coordination and integration to implement concert cancellations due to weather, travel problems for the band, or any number of other unpredictable factors. Rules might work well in the accounting department of the record company where the environment is stable and the requirements are largely standard but would likely be less effective in the dynamic environment and requirements of the advertising and promotion department.

**GOALS** As task uncertainty and interdependence increase, the use of preset rules become less effective to coordinate tasks. Consequently under these conditions, goals are a more effective coordination mechanism than rules. Instead of specifying what individuals should do, goals specify what outcomes individuals should achieve. Effective goals define measurable outcomes and often require high levels of effort to achieve. Specifying the outcomes, but not the process, gives employees greater flexibility to determine how they will accomplish their tasks. It also facilitates integration by ensuring that people are working toward the same outcomes. For example, university professors encounter students with a wide variety of needs and situations. Rather than provide professors with set rules, the university typically sets goals in terms of student proficiency. These goals ensure that professors are working toward the same outcome but have the flexibility to respond to different needs and situations faced by individual students.

**VALUES** In conditions of high task uncertainty and interdependence, values become an important coordinating mechanism. The values in an organization identify fundamentally important behaviors, activities, and outcomes, such as customer satisfaction. But unlike goals, values do not necessarily represent measurable outcomes. Thus, values are a better integrating mechanism than goals when there is high uncertainty and high interdependence. Shared values facilitate coordination under these conditions because those holding the same values all work toward the same outcomes while maintaining flexibility in the process of how they are accomplished.

Exhibit 7.2 helps illustrate the level of appropriateness of rules, goals, and values in conditions of low to high levels of uncertainty. The exhibit also helps illustrate the partial overlap among them. As a matter of practice, it is impossible to specify the line where rules are no longer effective and goals should be used. Likewise, an exact boundary between the use of goals and values cannot be specified. Managers need to understand the relationship of rules, goals, and values with different levels of uncertainty and to use judgment in applying them.
Formalization

One way to balance both differentiating (separating) and integrating people and activities is through formalization. Formalization is the defined structures and systems in decision making, communication, and control in the organization. These mechanisms usually explicitly define where and how people and activities are independent along with how they are integrated. While all organizations have to manage differentiation and integration, they vary substantially in how much formalization they use to accomplish this.

Officially designating the line of authority within an organization is a common way of achieving formalization. A firm’s line of authority specifies who reports to whom. It is often called line of authority because in organizational charts a line is typically drawn between subordinates and their bosses. Although it is important to follow the line of authority in many situations, there may be times that managers and employees go outside of the line of authority to seek special expertise needed to resolve a problem.

More formal organizations also tend to stress unity of command. Unity of command suggests that an employee should have only one boss. Thus, people working in a highly formal organization with a strong orientation to unity of command are likely to have one boss who directs their work and evaluates their performance. The matrix structure used by Luiz Freire’s company, Halliburton, violates the unity of command principle as we explain later. Yet such a structure has advantages that frequently offset the problems caused by people having two or more bosses.

More formal systems also often limit a supervisor’s span of control. Span of control refers to the number of employees reporting to a given supervisor. More formal organizations tend to have narrower rather than wide spans of control. The logic for this is that normally the fewer people a manager has to supervise, the more closely the manager can oversee and control them. However, several factors can influence the effectiveness of span of control. First, the nature of the task is an important factor. Usually, the more routine subordinates’ tasks, the wider the effective span of control can be; managers can effectively supervise more subordinates if they have predictable and routine tasks. Another factor influencing effective span of control is subordinates’ capabilities. Generally, the greater the subordinates’ capabilities are, the less close supervision they require—thus, a larger span of control can be effective. Also, managerial capabilities influence effective span of control. The greater the manager’s capabilities are, the wider the span of control that a manager can handle effectively. Integrating these three factors, we can see that if a manager is highly capable and his or her subordinates highly skilled, a wider span of control is possible. Exhibit 7.3 provides a brief summary of key factors that influence the effective span of control.16

Consistent patterns of span of control can affect the overall “shape” of the organization. Narrow spans of control throughout the entire organization tend to result in a tall organization structure, or one that has multiple layers with significant vertical differentiation. Wide
Factors That Influence the Span of Control

- Job complexity—Jobs that are complicated require more managerial input and involvement and, thus, the span of control tends to be narrower.
- Job similarity—if one manages a group of employees performing similar jobs, the span of control can be considerably wider than if the jobs of subordinates are substantially different.
- Geographic proximity of supervised employees—Because employees who work in one location are more easily supervised than employees in dispersed locations, physical proximity to employees tends to allow a wider span of control.
- Amount of coordination—a narrower span of control is advisable in firms where management expends much time coordinating tasks performed by subordinates.
- Abilities of employees—Supervisors who manage employees who are more knowledgeable and capable can have a wider span of control than supervisors managing less knowledgeable and capable employees. The greater the abilities of employees, the less managerial inputs are required and, thus, a wider span of control is possible.
- Degree of employee empowerment—Because employees who are trusted and empowered to make decisions need less supervision than employees with less autonomy and decision-making discretion, supervisors who empower their employees can have a wider span of control.
- Ability of management—More capable managers can manage more employees than less competent managers. The abilities of managers to educate employees and effectively respond to their questions lessen the need for a narrow span of control.
- Technology—Communication technology, such as mobile phones, fax, e-mail, workshare software, can allow managers to effectively supervise employees who are not geographically proximate, have complex and different jobs, and require significant coordination.

A flat organization structure is a structure that has fewer layers in its hierarchy than a tall organization. The span of control throughout the organization will generally lead to a more flat organization structure. Given similar numbers of employees, a flat organization will have fewer layers in its hierarchy than a tall organization. Exhibit 7-4 shows examples of tall and flat organizational structures, as well as span of control.

The external environment largely affects the appropriateness of a tall or flat organization. Tall and formal organizations tend to be slower at making decisions and responding to changes in the business environment. As a result, tall and formal organizations tend to be best suited to stable external environments. Because many organizational environments have become more dynamic, managers often respond by trying to “flatten” their organizational structures—often removing whole levels of hierarchy and people in the process (often referred to as downsizing). They do this so that information does not have to travel as far (from the bottom to the top) for decisions to be made, and as a consequence they can make and implement them faster.

Nonetheless, implementing and managing flat structures can be a challenge. As environmental uncertainty increases for many organizations, managers often design flatter structures so that information can flow faster and decisions can be made more quickly. However, the environmental uncertainty also tends to result in more nonroutine tasks, which often require more narrow spans of control, creating taller, rather than flatter, organizations. Thus, flatter organizations and wider spans of control with more nonroutine tasks are only possible if subordinates and managers have stronger capabilities. Technology can arguably help companies remain flat by influencing the effective span of control.
EXHIBIT 7.4 Tail and Flat Organization Structures

In summary, formalization mechanisms, such as span of control, line of authority, and chain of command, work to both differentiate and integrate people and their activities. They do so in an explicit and official way.

In A Manager’s Challenge, “AES Gives Power to the People,” structure by empowering lower-level employees to make major decisions. To ensure accountability and increase the probability of success, AES also provides its employees incentive compensation based on the company’s performance. Thus, they will be motivated to help the company perform well. AES also operates a more informal organization with no human resources, operations, purchasing, or legal affairs departments. Furthermore, it encourages employees to seek advice from one another and managers in different parts of the company before making major decisions. This process fosters informal communication across the company’s units and levels. AES’s organizational structure and approach have been very successful. The company’s return on invested capital grew 11.3 percent in 2005.²⁴

Informalization

While virtually all organizations have some degree of formalization, even the most formal organizations also have some degree of informalization. The informal organization consists of the unofficial but influential means of communication, decision making, and control that are part of the habitual way things get done in the organization. Informal structures for decision making, communication, and control usually are not represented in organizational charts, yet they are common in the day-to-day operations of most organizations. Both the degree of formalization and the degree of informalization can vary from company to company. For example, one study compared U.S. and Japanese firms and found that the Japanese relied much more on informalization.²⁵ Japanese companies accomplish much of their decision making, communication, and control through informal, face-to-face meetings between people who do not have formal reporting relationships. This process is referred to as nemawari. When nemawari ensures, informal conversations occur in which incremental decisions are made. Consequently, by
A MANAGER’S CHALLENGE

Diversity

AES Gives Power to the People

AES, one of the world’s largest electric-power producers, has been able to achieve a remarkable level of success through its informal organization and empowerment of its employees. In addition, employees in the field make many large acquisition decisions.

The company has been successful because its local units are empowered to make their own decisions yet are held accountable for their own profitability. Many AES managers and employees see this empowerment as beneficial because it gives them a great deal of flexibility and freedom. It’s as if they are running their own businesses versus working for other people. They also feel more creative and motivated. As a result, turnover is lower: AES even allows lower-level employees to make critical, multimillion-dollar decisions such as acquiring new subsidiaries. The system works because prior to making a decision, AES employees are expected to ask for advice (often by e-mail) from other people in the company, including senior managers.

Another reason for AES’s success is due to the way the company is structured—its organization is very flat. For example, the company has never established separate corporate departments for its human resources, operations, purchasing, or legal affairs functions. Multiple teams work under a simple level of management so that bottom-up decision making is the norm. Fewer levels of management and shorter lines of communication accelerate decision making. Consequently, the company is nimble and can quickly respond strategically to changes in the marketplace.

Employee incentivizes programs have also contributed to AES’s success. For example, the company gives an employee the option of earning a salary plus bonus (incentive) compensation in lieu of hourly and overtime pay. About 90 percent of AES’s employees have chosen the salary-plus-bonus option. It is important to note that when standards and incentives are in place, employees are less likely to need intervention from “centralized” managers. AES feels that by giving the employees the power to make decisions, they will be more prone to support the company and will be more successful, which in turn will make the company more profitable. The culture thrives on individual empowerment, developing more capable employees, and holding them accountable for company performance with compensation through stock options. AES’s people-oriented culture and empowered management has resulted in a low turnover rate and high employee satisfaction.


Centralization and Decentralization

In addition to the organization structure’s formalization and informalization, its extent of centralization or decentralization is also important. Centralization and decentralization refer to the level at which decisions are made, at the top of the organization or at lower levels.

Centralized organizations tend to restrict decision making to fewer individuals, usually at the top of the organization. In contrast, decentralized organizations tend to push decision-making authority down to the lowest possible level. For instance, European multinational organizations tend to be decentralized and allow units in different countries to make decisions according to local conditions. Often this enables them to adapt to government demands and different consumer preferences.
For many years, Philips, a large multinational electronics firm headquartered in the Netherlands, exemplified a decentralized international organization. Philips operated in over 60 countries around the world, and many of the larger-country units enjoyed considerable freedom and autonomy. For example, even though the V2000 videocassette recorder (the first VCR) was developed at the company’s headquarters, the North American division of Philips refused to purchase and sell the product in the United States and Canada. Instead, North American Philips purchased a VCR made by a Japanese rival and resold it in the United States and Canada under the Philips brand name.

Japanese firms, on the other hand, exhibit a stronger degree of centralization and tend not to delegate decisions as frequently as either European or American firms. Most Japanese multinational firms operate like centralized hubs into which information flows, and from which decisions are announced to foreign subsidiaries. Japanese firms have encountered increasing complaints from host nationals in local subsidiaries about a “bamboo ceiling”—the fact that host nationals are sometimes excluded from strategic decision making because Japanese expatriates sent by headquarters to ensure more centralized control occupy nearly all key positions in the subsidiary. A major “bamboo ceiling” was broken when Sony named Howard Stringer, a citizen of Great Britain, as the CEO of Sony in 2005. At the time, Sony’s performance was suffering, and Stringer was charged with the task of turning it around. However, Sony’s performance has not rebounded since he was named CEO, thus clouding his future as the leader for the Japanese company.

Sometimes it is perceived that formalization and centralization are essentially the same, and that informalization and decentralization are also synonymous. This is not the case (see Exhibit 7.5). A highly formal organization may be centralized, but a formal organization can also be fairly decentralized. For example, as we illustrated previously, Philips is a fairly decentralized company in that decisions are pushed down into the organization. At the same time, however, Philips is also relatively formalized. Lines of authority, chain of command, official policies, and so on are prevalent. In contrast, the U.S. military is both formal and centralized.

Similarly, a highly informal organization can be either decentralized or highly centralized. For example, on average, Japanese firms are relatively centralized but at the same time function through a high degree of informalization. Likewise, it is quite common for family-owned businesses to be both centralized and informal. That is, the owner makes most of the decisions, but informal connections, communication, and control, rather than the formal structures or rules, determine how tasks are accomplished. In contrast, Club Med is fairly decentralized and informal. Each general manager of a resort is fairly free to make decisions that meet the needs of his or her unique market. Club Med achieves coordination through an array of informal relationships among general managers and corporate managers.
Some research suggests that the more intense the firm’s information needs are, the more formal and centralized its IT (information technology) structure becomes.26 Other research shows that the strategic use of decentralized structures allows units to adapt important new procedures to fit their needs and environment. In this way, they are more able to successfully get their subsidiaries and divisions to adopt new programs such as quality management standards and approaches.27

A MANAGER’S CHALLENGE

Change

Matsushita Finds a New Way to Electrify Its Profits

In 1994, Matsushita’s then-CEO Tenzo Tani resigned abruptly from the firm saying his departure was due to the company’s sagging fortunes, for which he took responsibility. Tani’s sudden departure shocked many in Japan’s corporate world because CEO ousters are almost unheard of there. It seemed especially odd for Matsushita, which had commonly adhered to traditional Japanese-style management. Subsequent to Tani’s resignation, Chairman Matsushita asked the most junior of Matsushita’s executive vice presidents to manage the company. His selection sent a strong message that the company wanted to change how it managed the business. This was reinforced when the company failed to keep ex-CEO Tani on its board of directors.

Matsushita wasted no time reorganizing following Tani’s departure. The company also subsequently hired a new CEO, Kansu Nakamura, who played a pivotal role turning the company around. A three-year strategic plan was developed in which its approach was referred to as “Four-S Management” indicating “simple,” “small,” “speedy,” and “strategic.” The company’s new management team wanted to simplify the company’s managerial approach and make it less-hierarchical.

Decentralizing decision authority to Matsushita’s lower-level managers was essential to this plan. In so doing, the company removed an entire layer of management at headquarters, and the heads of the operating divisions were given full responsibility for product development as well as production and finance. Basically, each division had the autonomy to operate its own business, with Matsushita acting as the “shareholder” of each division.

Such decentralization and focus on individual responsibility is unusual in Japan, where group-oriented decision making is the norm and centralized authority is common.

However, the change positively affected the heads of divisions, encouraging them to be more entrepreneurial. In addition, all managers from the lowest to the highest levels were required to provide Nakamura with a personal, three-year “revival” plan for each of their divisions or departments. By centralizing the company’s research and development operations, each individual then had authority and responsibility directly provided by the CEO, who, in turn, created a flat organizational structure. Nakamura also ended the internal rivalries that led some divisions to develop identical products by centralizing the R&D operations.

Ultimately, the restructuring of Matsushita led to the recovery of the company. With the reduction in management levels and reorganization of 30 divisions into four groups with shared R&D facilities, the company cut costs and achieved a 50 percent operating profit for 2002. Eliminating product lines, merging operations, and centralizing R&D reduced costs, nothing was sacred, not even the corporate structure, which included the lifetime employment system established by the founder Konosuke Matsushita. Today, the $75 billion company is one of the biggest consumer electronics makers in the world and is reaping the benefits of the changes because Matsushita is achieving its best profit performance in a decade. Many are shocked at the changes made at Matsushita because they were anathema to the Japanese culture. Yet, one would imagine that the company’s stockholders are pleased with the outcomes.

Matsushita went against tradition and decentralized decision-making authority to its various divisions and departments. Today, it is largely decentralized, with centralized R&D operations to eliminate the duplicate products developed by divisions within the company trying to compete against each other. Thus, Matsushita was simultaneously decentralized and centralized (in different areas). The outcomes of the change in structure were dramatic and positive. The company’s profits have increased greatly since the change.

Common Organizational Structures

A variety of organizational structures exist, but six structures represent the most common forms. We examine each of these basic structures although you can obtain variations by combining more than one structural form. In reality, most organizations do not have pure forms but rather have hybrids. After we review these basic organizational structures and briefly examine their general strengths and weaknesses, we then move to a more detailed discussion of the conditions that determine which type of structure a manager should adopt.

Functional Structure

Perhaps the simplest structure is the functional structure (Exhibit 7.6). The functional structure is used to organize the firm around traditional functional areas, such as accounting, finance, marketing, operations, and so on.23 This structure is one of the most common types because it separates the specialized knowledge of each functional area through horizontal differentiation and can direct that knowledge toward the firm’s key products or services.

Firms with operations outside their domestic borders might also adopt a functional structure. The key difference between a purely domestic organization and a multinational organization with a functional structure is the scope of the responsibilities functional heads in the multinational firm bear. In a multinational, each department has global responsibilities. Although each subsidiary might have a local human resource manager, the top human resource manager in the company (usually in the home office) is responsible for directing worldwide human resource activities, such as hiring, training, appraising, or rewarding employees. This structure is most commonly used when the technology and products of the firm are similar throughout the world.

The major advantages of this structure include the following:

- It is well suited to small to medium-sized firms with limited product diversification.
- It facilitates specialization of the firm’s functional knowledge.
- It reduces the duplication of the firm’s functional resources.
- It facilitates coordination within the firm’s functional areas.

A global functional structure can also reduce headquarters-subsidiary conflicts because it integrates operations throughout the world into their functional areas and charges functional department executives with global responsibility. This, in turn, enhances the overall international orientation of managers. For example, the higher a

EXHIBIT 7.6

Functional Structure
marketing manager rises in the marketing department, the more that manager needs to think about and understand the firm’s global marketing issues.

The primary weaknesses of this structure include the following:
1. It often creates problems of coordination across the firm’s functional groups.
2. It leads to a narrow view of the organization’s overall goals.
3. It can limit the attention paid to customers as functional groups focus on their specific areas.
4. It can result in the organization responding slower to market changes.
5. It often burdens chief executives with decisions that involve multiple functions.

In an international setting, a functional structure has disadvantages when the firm has a wide variety of products and these products have different environmental demands, such as different government restrictions or standards, customer preferences, or performance qualities. This weakness is exacerbated when different functional departments experience different demands across geographical areas. For example, if accounting practices are similar between the United Kingdom and France but advertising approaches differ, this will tend to exaggerate coordination difficulties between the accounting and marketing departments.

**Product Structure**

In a product structure like that shown in Exhibit 7.7, the firm is organized around specific products (or services) or related sets of products (or services). Typically, each product group contains all the traditional departments a functional structure has, such as finance, marketing, operations, human resource management departments, and so on. Each product is generally treated as a *profit center*. That is, the expenses related to a product are subtracted from the revenues generated by the sales of that product. Most commonly, the heads of the product or services units are located in the headquarters of the company.

The principal advantages of a product structure include the following:
1. Individuals in different functional areas within the product group focus more on the specific products and customers.
2. The performance of the firm’s products (profits and losses) is typically easier to evaluate.
3. There is usually greater product responsiveness to market changes.
4. It often reduces the operating decision-making burden of the top executive.

The major disadvantages of the product structure include the following:
1. Duplication and lack of economies of scale for functional areas (for example, IT, finance, human resources, and so on).

**EXHIBIT 7.7**

**Product Structure**
Multinational firms, such as Becton Dickinson, a medical products firm based in Franklin Lakes, New Jersey, frequently use global product structures. They typically do so when their customer needs for a given product are similar throughout the international markets in which the firm participates.

2. It can create problems for customers who purchase products across multiple product groups.
3. Sometimes there are conflicts between the firm’s corporate objectives and the objectives of its product groups.
4. There is an increased likelihood of conflict between different product groups and greater difficulty coordinating across product groups.

Multinational firms also use global product structures. This typically occurs when customer needs for a given product are similar throughout the international markets in which the firm participates. After Becton Dickinson adopted a global product structure, the head of the biosciences unit became responsible for global strategy formulation and implementation of those products.

Division Structure
The division structure can be viewed as an extension of a product structure. Exhibit 7.8 provides a partial organizational chart of the division structure of Becton Dickinson, a medical products company. Divisions typically consist of multiple products within a generally related area, though specific products may not necessarily be closely related. General Electric (GE) has over 11 different business units, organizing a diversified portfolio of

EXHIBIT 7.8
Division Structure
products including financial services, transportation, energy, insurance, medical systems, and entertainment products.

Within each unit, there are broad arrays of product groups and specific products. For example, the Medical Systems Division within GE consists of 12 different product groups, such as cardiology, radiology, emergency room equipment, and products related to orthopedics and sports medicine. Within each of these groups are many more specific products. Clearly, it takes a significant size and diversity of products to justify the creation of a division structure. A division structure also facilitates the use of modular products each of which is different but which contain some of the same parts. Thus, modular parts are produced and assembled in different ways to produce several different products. Typically, in a division structure, all functional activities are located within each division.

The following are common strengths of a division structure:

1. Organizing various product families within a division can reduce functional duplication and enhance economies of scale for the firm’s functional activities.
2. To the extent that product families within a division serve common customers, customer focus is often stronger.
3. Cross-product coordination within the division is easier.
4. Cross-regional coordination within product families and within the division is often easier.

The following are common disadvantages of a division structure:

1. Typically it is only appropriate for large, diversified companies with significant numbers of specific products and product families.
2. It can inhibit cross-division coordination.
3. It can create coordination difficulties between division objectives and corporate objectives.

Similar to domestic firms, multinational firms often use this structure. In this case, each division is charged with global responsibility. Because a division structure is generally an extension of a product structure, it has many of the same advantages and disadvantages. For large, diversified multinational firms, the division structure is one of the more common structures used.

Customer Structure

As the name implies, customer structures are organized around categories of customers (Exhibit 7.9). Typically, this structure is used when different categories of customers have independent needs that differ from each other. For example, industrial customers might purchase a different set of products than retail customers.

The primary strengths of this structure include the following:

1. It facilitates in-depth understanding of specific customers.
2. It increases the firm’s responsiveness to changes in customer preferences and needs as well as the firm’s responsiveness to actions taken by competitors to better serve customers.

EXHIBIT 7.9  
Customer Structure
The primary weaknesses of this structure include the following:

1. It typically produces duplication of functional resources in each of the customer units.
2. It often makes it difficult to coordinate between customer units and corporate objectives.
3. It can fail to leverage technology or other strengths of one unit across other units.

Many multinational firms find this type of structure difficult to implement because customers differ across regions and countries. For example, even though IBM initially had a consulting unit focused on government customers, it found it difficult to organize the unit on a global basis because different governments had different needs and requirements for selecting computing-solution providers. Thus, while government customers in the United States were significantly different in their needs from other IBM customers, the advantage gained by focusing on this customer segment was not possible across the rest of the world.

Geographic or Regional Structure

As Exhibit 7.10 shows, firms can develop an organizational structure around various geographical areas or regions. Within this type of structure, regional executives are generally responsible for all functional activities and products in their regions. For example, a Western regional vice president might be responsible for all key business activities in the states of Washington, Oregon, California, Nevada, Montana, Utah, Idaho, Wyoming, Colorado, Arizona, and New Mexico. The individual regions are often treated as profit centers. Thus, each region’s profitability is measured against the revenues it generates and the expenses it incurs.

The major advantages of a geographic or regional structure include the following:

1. It typically leads to in-depth understanding of the market, customers, governments, and competitors within a given geographical area.
2. It usually fosters a strong sense of accountability for performance among regional managers.
3. It increases the firm’s responsiveness to unique changes in the market, government regulations, economic conditions, and so forth for the geographic region.

The major disadvantages of a geographic or regional structure include the following:

1. It often inhibits coordination and communication between regions.
2. It can increase conflict and coordination difficulties between regions and the firm’s corporate office.
3. It normally leads to duplication of functional resources across regions.
4. Segmenting production facilities across multiple regions can inhibit economies of scale.
5. It can foster competitive behavior among regions, which is particularly frustrating for customers who have operations across multiple regions.

Multinational firms commonly employ geographic or regional structures. This is primarily because customers’ demands, government regulations, competitive conditions,

EXHIBIT 7.10
Geographical/Regional Structure
the availability of suppliers, and other factors vary significantly from one region of the world to another. The size or scope of the region is typically a function of the volume of business. For example, in consumer products companies, the Middle East and Africa are often included in the European region because the volume of sales in these areas is too small to justify separate regions (EMEA—Europe, Middle East, and Africa). On the other hand, for most oil and gas companies with a geographic structure, the Middle East is a separate region because of its importance as a source of oil.

**Matrix Structure**

A matrix structure, such as the one shown in Exhibit 7.11, consists of two organizational structures superimposed on each other. As a consequence, there are dual reporting relationships. That is, one person essentially reports to two bosses. These two structures can be a combination of the general forms already discussed. For example, the matrix structure might consist of product divisions intersecting with functional departments or geographical regions intersecting with product divisions. This is the structure used by Halliburton as described in the opening profile. As we explained, Lail Ferere is a regional manager. He coordinates with country managers and product or project managers. The two overlapping structures used are often based on the two dominant aspects of an organization’s environment.

The major strengths of a matrix structure include the following:

1. It typically facilitates information flow throughout the organization.
2. It can enhance decision-making quality because before key decisions are made, the organization considers both intersecting perspectives.
3. It is best suited to a changing and complicated business environment.
4. It can facilitate the flexible use of human resources.

The major disadvantages of a matrix structure include the following:

1. It often makes performance evaluations more complex because employees usually have two bosses.
2. It can inhibit the organization’s ability to respond to changing conditions quickly.
3. It can diffuse accountability.
4. Conflicts can occur when the firm attempts to integrate the differing perspectives and objectives of intersecting units.

Multinational companies frequently use matrix organization structures, as exemplified by Halliburton. They are used often because although economies of scale for global product, division, or even customer structures are compelling, regional differences relative to governments, cultures, languages, and economies are also strong. However, matrix structures are especially difficult to manage in multinational companies. ABB, a large industrial company based in Switzerland, for many years had a regional division matrix structure. However, in the late 1990s, senior executives at ABB determined that the

**EXHIBIT 7.11**

Matrix Structure
conflicts and difficulties of managing the matrix outweighed the benefits so they changed to a global division structure. Even though such changes are positive, they also are difficult to design and implement. Thus, it requires much planning for major changes in structure.  

Mixed Organizational Structures

As we mentioned earlier, although there are pure structural forms, any combination of the basic organizational structures is possible. The typical objective of a mixed, or a hybrid, organizational structure is to gain the advantages of one structure and reduce its disadvantages by incorporating the strengths of different structures. Because many of these hybrid structures are reflected in contemporary organizational forms, we explore this issue in more depth in the next section, however, Exhibit 7.12 provides an example of a hybrid functional-product-customer structure.

Network Organizational Structures

There are a variety of contemporary organizational structures. Many of them do not have common labels or names. This is, in part, because many of them have their essence in the configuration of organizational units and activities and organizational charts cannot easily depict them. One way of addressing these forms is by using the value chain concept introduced in Chapter 5. A major part of creating a contemporary structure involves reconfiguring the firm’s value chain in an effort to gain cost savings and specialization benefits and improve integration and coordination.

Often these contemporary structures are referred to as network structures. There are several versions of network structures, ranging on a continuum from “low networked” to “high networked.” In the low-networked structures, the quantity and magnitude of externally
networked activities is limited. That is, a firm owns and executes most of its primary and support value chain activities and networks, and outside organizations are used for only a limited number of more minor value chain activities. In contrast, the high-networked structures include a larger quantity and magnitude of externally networked activities. In these structures, the number of externally networked value chain activities often exceeds those owned and executed internally by the firm.

One of the most common ways of networking with an external organization is to outsource a value chain activity. Outsourcing is the practice of taking a significant activity within the organization and contracting that activity out to an independent party. For example, in 2007 the European Space Agency signed a multibillion-dollar contract with EDS to perform virtually all the agency’s IT functions. A major portion of EDS’s revenues comes from performing virtually all IT functions for a variety of customers (see Exhibit 7.13).

Nike outsources nearly all its shoe manufacturing, essentially the operations segment of the primary activities in its value chain. It is networked with many contract manufacturers. Nike is so tightly networked that it can design a shoe at its Beaverton, Oregon, headquarters, send the blueprints via satellite to one of its contractors, and receive back by FedEx a prototype shoe from the contract factory all within a week. Increasingly, activities that executives once believed could only be done internally, such as IT, human resource administration, design, manufacturing, sales, and customer support, are being outsourced today. Technology has made it possible to network activities together and retain reliability as well as lower costs. Much of the outsourcing that occurs today is to companies in another country. All Nike’s manufacturing contractors are located outside of the United States. Many outsourced activities are going to companies in India, particularly in IT. Yet, the Indian government outsourced the processing of visas to a U.S. company in 2007.

The available technology allowing communication and coordination to occur between distant locations and among multiple people on a real-time basis facilitates network-type structures. Some refer to this context as the digital era. Technology allows people to coordinate and to integrate their activities even though a formal organization does not bind them together. Use of this new technology to “network” (coordinate and integrate) diverse people, activities, and organizations creates new and sometimes significant challenges for managers. As noted previously, managers must ensure that all activities are completed effectively—not an easy task if people are only loosely related to their organization.

In high-networked structures, firms have more value chain activities networked to external organizations than owned and executed internally. Assume a clothing design company formulated a strategy to compete by having superior design, world-class raw
materials, and close relationships with retailers. Based on this strategy, the firm may own and control only a few elements of the entire value chain, such as design, procurement, and sales, but virtually nothing else. The firm could network with a company such as Ryder to perform its inbound logistics. It could network with various contractors in Asia to manufacture the clothes as designed. The firm could contract with UPS to perform all the outbound logistics. It could outsource customer service to Araya to handle its customer services. IBM or EDS could run the IT functions. Ernst & Young could manage the HR, finance, and tax functions. In this way, managers of the company could focus their energies on the critical dimensions of the value chain, such as design, procurement, and sales, that are the most likely to provide a competitive advantage (see Exhibit 7.14).

Similar to the more traditional structures, network structures have both advantages and disadvantages. One of the most compelling potential advantages is that networking allows managers to focus on core competencies or the activities that are most likely to yield competitive advantage. By concentrating on core activities, managers can do them better. However, the "noncore" activities that are networked must also be performed effectively. It takes time, attention, energy, and skill to manage these relationships with external organizations. Simplified, network structure can provide greater focus and specialization on specific value chain activities, and it also requires oversight, coordination with the organizations that are performing the networked activities, and the integration of their outputs into the firm.

Designing Organizations

Fundamentally, in designing organizations managers face the challenge of capturing both specialization and integration advantages while minimizing the often mirror-image disadvantages. So then, "How should the managers decide to actually structure an organization?" The two main determinants of this decision are the external environment and the strategy of the company.
The External Environment

A key factor in determining the match between the environment and organizational structure is environmental uncertainty. We offered a relatively simple description of environmental uncertainty earlier in this chapter. Next, we expand this view with two related but separate constructs: the extent to which the environment is (a) complex and (b) dynamic.

**Environmental Complexity** Environmental complexity is fundamentally the breadth and depth of differences and similarities in an organization’s external environment. Complex environments have greater breadth and depth of differences than simple environments. The differences and similarities can be assessed along many dimensions, but there are several core categories. These core categories include products, customers, technology, competitors, suppliers, and geography.

The complexity relative to products can vary widely from firm to firm. For example, a BIC pen consists of approximately seven parts. Each part is produced with relatively low technology, and the assembly of the parts into the final product also requires relatively low technology. At the other end of the continuum, when Boeing assembles a 787 jumbo jet, it has a huge breadth of over 1 million parts to integrate. The depths of these components range from a simple metal bolt to a panel composed of rare composite materials. Thus, Boeing has a highly complex product environment, especially relative to the BIC pen’s environment.

Customers constitute another important dimension of environmental complexity. For example, McDonald’s serves hamburgers to millions of customers each day, but the difference among these customers is relatively small compared to the group’s overall size. In contrast, Toyota serves millions of customers each year, but their needs are different enough that key aspects of Toyota cars, such as the suspension and emissions systems, are very different from one region of the world to another.

Technology is another important dimension of environmental complexity. Technological complexity includes both the diversity of the technology required and the level of its sophistication. For example, Alcatel-Lucent Technologies utilizes analog, digital, and photonic technologies in its telephone and communication products. But the technology involved in both the manufacturing of its photonic switches for transmission of data along fiber optic lines and in the actual products Alcatel-Lucent makes is of a depth that many people with PhD’s in physics have difficulty understanding it.

Competition constitutes an important dimension of environmental complexity. A larger number and greater diversity of competitors produce more complex environments. For example, in...
the design and manufacture of commercial aircraft. Boeing has a fairly complex product environment, but it simultaneously has a much more simple competitor environment. Basically, its only direct competitor is Airbus. This does not mean that competing against Airbus is easy but only that its competitor environment is more simple than the environment of The GAP. The GAP competes with thousands of clothing manufacturers and labels for the same customers.

Suppliers are an additional dimension of environmental complexity. The greater number and diversity of suppliers lead to more complex environments. For example, despite having a more simple competitor environment, Boeing has a complex supplier environment. While Boeing designs most of the commercial aircraft it produces, it uses hundreds of suppliers, some making such large components as the entire tail sections of Boeing’s planes.

The final dimension, geographic complexity, is included because it tends to have a significant impact on all the dimensions previously mentioned. This is principally because the more geographic regions covered the greater the probability of differences across the other categories. For example, the greater the number of countries in which a firm operates the greater the probability that dissimilarities will exist between the countries (their governments, laws, customer preferences, language, etc.). These differences are likely to increase the breadth and depth of differences relative to products, customers, technology, competitors, and suppliers. Consequently, greater geographic scope increases the complexity of the environment.

Environmental Dynamism

The second element contributing to the overall uncertainty of the environment is the extent to which the environment is static or dynamic. Static environments may have few or many factors, but these factors tend to remain stable over time. For example, the manufacturing technology for pens and the component parts has changed little in the last 30 years. In contrast, factors in dynamic environments change rapidly. For example, advancements in composite materials and electronics have changed significantly for commercial aircraft manufacturers over the last 30 years. The fashion industry operates in an even more dynamic external environment. Benetton faces an environment in which colors, fabric, and styles change not just year to year but season to season. Firms facing dynamic environments often describe them as “white water” environments in reference to the challenges of navigating a raft down the changing rapids of a river. A rapidly changing external environment typically requires quick internal organizational changes.

While we note the effects of change in several chapters, we discuss at length, in Chapter 15, why organizational change is difficult, and systematic methods for enhancing its success.

By combining the dimensions of simple-complex and static-dynamic, we can create a four-cell matrix that provides a broad backdrop against which organizational design structures can be placed (see Exhibit 7.15). In general, the more complex and dynamic the environment

<table>
<thead>
<tr>
<th>Low Uncertainty</th>
<th>Moderate Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple</td>
<td>Moderate</td>
</tr>
<tr>
<td>Complex</td>
<td>High</td>
</tr>
</tbody>
</table>

**EXHIBIT 7.15**

Matrix of Organizational Uncertainty

![Matrix Diagram](image-url)
is, the more the organizational structure needs to coordinate different groups’ efforts and the greater the speed with which this coordination needs to occur. This means that the more complex and dynamic the firm’s environment, the more the structure will need to make use of mechanisms that facilitate coordination and integration, such as values, teams, and liaisons.

**The Organization’s Strategy**

The second major element that managers must consider in designing their organization’s structure is the company’s strategy. Unfortunately, there are no simple rules to use to match a particular structure to a company’s strategy.

However, there are a few principles that can help to understand the relationship between strategy and structure.

A major principle is that the structure should complement and leverage the strategy.

But, it is difficult to determine if a given structure complements or leverages the strategy.

However, we can gain important insights into this principle by examining one of the most common strategy formulation approaches. As we discussed in the previous chapter on strategy, one of the common means of formulating strategy is to determine the company’s core competencies or resources that produce value, which is hard to imitate and is scarce, for customers. By focusing on these identified competencies or resources, we can more easily evaluate the fit or misfit of a proposed structure with the strategy.

Additionally, companies commonly use a division structure to complement a multi-product strategy. Firms with such a strategy seek to operate in diverse product markets. GE uses this strategy to manufacture and sell household electronic products and jet airplane engines and to provide financial and entertainment services. For each product or service market, it has a separate division.

**Organizational Structures in an International Context**

Our focus so far in this chapter has been on the basic organizational structures in both domestic and international contexts. Now, we examine organizational structure in an international context. Although more firms today are beginning as international organizations because of the technological reach, some are moving into international markets after they gain some level of maturity and managerial capabilities. Most start in one country and for a period of time focus on the customers within that country. Although international organizations would be easier to understand if they evolved steadily and systematically, they do not do so. However, there is a general relationship between the nature of the firm and its structure. This relationship was first proposed over 30 years ago and has generally been supported recently. Exhibit 7.16 summarizes this theory and its findings.
The first dimension of the matrix is the extent of foreign sales. For example, Nokia makes 97 percent of its sales outside of its home country in Finland. The second dimension of the matrix is the extent of product diversification. Product diversification is the extent to which the firm has many different products across many different segments and even industries.

For example, Nokia sells primarily mobile phones and network equipment for mobile phone systems. This represents fairly low product diversification. In contrast, GE has many different products across such diversified industries as jet engines, lighting, medical equipment, television and broadcasting, plastics, and power plants. Firms with low foreign sales and low product diversification generally form an international division to manage their international sales. Because there is not much in foreign sales to manage and because the products are relatively similar, it is more efficient to manage the international sales of all products in a single unit—the international division.

Firms having low product diversification with high foreign sales usually employ a geographic structure. This was the case with Nokia for a number of years. It was divided into four major geographic regions: Europe and the Middle East and Africa (EMEA), North America, Latin America, and Asia Pacific.

Firms with low foreign sales but high product diversification typically use global product divisions because the foreign sales are more effectively managed in units aligned with each product. Alternatively, firms with high foreign sales and high product diversification frequently use a matrix structure. This was the case for ABB. Similar to GE, ABB is a large industrial company with a highly diversified set of products ranging from train locomotives to power transmission. Because these products are significantly different, ABB needed to manage each independently. However, because international sales are a large percentage of overall sales, the company also needed a geographic structure. In combination, this formed a product-geography matrix structure.

Thus, while there are some associations between strategy and structure in international firms, the development of international organizations can be divided into two basic states: initial international structures and advanced international structures. Although most international organizations rarely use advanced international structures early, there is no consistent sequence that companies follow. Rather, the size of the organization’s international sales, product diversity, size of foreign R&D, and foreign manufacturing determine the advanced global structures.

A DOMESTIC ORGANIZATION WITH AN EXPORT DEPARTMENT As firms venture into foreign markets, they usually begin with a limited number of products. Typically, the products to be sold in foreign markets are designed and produced in the domestic market. Consequently, the primary international task is exporting the products to foreign markets. To manage these foreign sales, most firms simply add an export department to their existing structure to handle specialized tasks, such as international shipping and customs regulations.

A DOMESTIC ORGANIZATION WITH AN INTERNATIONAL DIVISION When the volume of exports exceeds the capabilities of a few specialists, firms commonly establish an international division. International divisions typically are responsible for all functional activities relative to international markets. The international division often has its own small departments for accounting, finance, marketing, and sales. However, production activities are not usually part of the international division. Products are produced within the normal domestic organizational structure and modified as needed for the international division.

Consequently, the products often sold by the international division typically have broad appeal, and there are relatively few customer differences across countries.

Adding an international division has a number of advantages. First, it is an efficient means of dealing with the international market when a firm has limited experience. The focus on international activities and issues within the division can foster a strong professional identity and career path for its members. It also allows for specialization and training in international activities, which can be valuable when the firm moves more heavily into the international marketplace and needs employees with global market knowledge.

The focus on international markets, competitors, and environments can also facilitate the
development of a more effective global strategy. Furthermore, because the top officer of the international division often reports to the firm’s CEO (or a similar senior executive), international concerns often receive a high level of corporate support with this structure.

However, international divisions are sometimes vulnerable because they depend so heavily on other divisions for products and support. Because domestic sales of a particular product are often the largest percentage of a product’s overall sales, low priority may be given to international sales. Other parts of the firm that supply products and services to the international division may be unwilling to make modifications that cost them time and money, even if the changes could facilitate greater international sales.

**ADVANCED GLOBAL STRUCTURES** When international sales as a percentage of the firm’s overall sales increase, and as the organization expands into a larger number of countries, it becomes increasingly difficult to maximize the benefits of an international division and minimize its weaknesses. When the organization outgrows its initial international structure, it can choose from among six advanced global structures. As mentioned, there is no particular sequence from one structure to another. The six advanced global structures correspond to the basic functional, geographic or regional, product, division, customer, and matrix structures already discussed, except that they have a global rather than a domestic scope.

Increasing globalization is contributing to a number of the changes in the organizational structures used by domestic and multinational firms. As we explain in the following “Manager’s Challenge,” globalization has contributed to increasing outsourcing (networked structures), flatter organization structures, more flexible structures and increasing integration (strategic alliances, for example). Thus, over time, many firms are using more advanced global structures, and these structures are common across country boundaries and cultures.

**Organizing to Think Globally and Act Locally**

Given the increasingly international environment in which organizations compete, it is important to examine one other factor that managers must consider when designing organizational structures—whether the organization satisfies global or local demands. A global approach involves the integration of activities on a coordinated, worldwide basis. Firms are likely to use a global approach when the benefits gained from worldwide volumes, efficiencies, or economies of scale are significant. These benefits include economies of scale for production, greater leverage of high-cost distribution networks, and higher leverage of expensive R&D activities. In a variety of industries, the minimally efficient production scale is beyond what a single market could support. For example, Boeing’s break-even point for a new commercial aircraft is approximately 300 airplanes, with each airplane costing in excess of $100 million. This requires total sales of $30 billion. To achieve an acceptable return on its investment, Boeing must try to develop airplanes that will have global appeal because the U.S. market alone is not large enough to absorb the sales needed for a reasonable return. The high-level of R&D and scale economies require that firms centralize activities such as product development and manufacturing.

In contrast, differences among countries and customer preferences are two key factors that drive companies toward a local approach. A local approach involves differentiating activities in each country served. Firms often use a local approach when the benefits from location-specific differentiation and adaptation are significant and factors such as economies of scale are small. Procter & Gamble (P&G) was forced to use a local approach for a laundry detergent it developed. Initially, P&G wanted to develop one detergent, Visor, for all European countries served to capture the efficiencies of a single development, manufacturing, and marketing effort. However, it found significant differences between countries. For example, it found that Germans prefer front-loading washers, whereas the French prefer top-loading washers. This created a problem because detergent was not distributed as well among the clothes when poured into a front-loading washer. P&G solved the problem by developing a plastic ball into which detergent could be poured and that then could be thrown in with the clothes in a front-loading machine. The plastic ball was designed to disperse the detergent gradually through small holes as the ball bounced around in the clothes while they were being washed. Thus, P&G had adapted the product to fit customers’ needs in the German market.
Globalization and Organizational Structures

Because businesses are increasing their sales, manufacturing, research, and management internationally, they are also changing how they do business. Globalization has changed the labor market, created flexible work settings, flattened organizational structures, and increased the ability of firms to network across nations. In addition, globalization is linking markets and governments, creating more opportunities and exposures for people and firms.

Outsourcing

IT companies have led the way in terms of global sourcing. These firms discovered over 30 years ago that IT functions could be performed at lower costs abroad. Today, U.S. software engineers earn, on average, $75,000 a year compared to similarly skilled workers in India, who earn less than $10,000 annually. As a result, electronics companies, such as Motorola, Texas Instruments, and Intel, began sending manufacturing operations abroad to reduce their operating costs and speed product development by taking advantage of time zone differences and lower wages. Many other firms have followed their lead by outsourcing work ranging from software development to HR administration and even accounting and finance functions.

Flexibility

Organizational systems, processes, and people are working with fewer detailed rules, procedures, and levels of management. Instead, they are being given greater autonomy and are being empowered to be creative and take initiative. Partly because of globalization, businesses are also beginning to customize their employment contracts with workers, who are increasingly engaging in telecommuting and job sharing. In addition, employees are being empowered to make decisions with fewer levels of management.

Flat Organizational Structures

Many companies expanding their business globally often decentralize the employee benefit function. Instead, they are using local managers to create employment plans and job designs, develop financial strategies, and select insurance carriers in each country. Companies are also using global approaches by benchmarking local country designs, incorporating strategic plans that meet local compliance measures, and ensuring that local insurance carriers meet minimum-security standards and evaluate catastrophic exposures. Employees are learning new skills and taking on more challenging assignments to earn pay increases because there are fewer vertical positions for domestic promotions. IT advances are allowing employees to communicate directly across the globe, thereby decreasing the need for middle managers to control communications. In other words, employees are less likely to be required to communicate through the “chain of command.”

Integration

Many characterize the 1980s as an era of quality, the 1990s as an era of reengineering, and the twenty-first century as an era of integration. Integration has allowed companies to network with other companies, enhancing their competitiveness by giving them access to complementary resources.

Studies have shown that with globalization, the gross domestic product is growing for countries participating in the global economy. However, the wealth of countries with trade barriers and protectionism is declining. Thus, globalization has increased opportunities, but governments must open their markets to take advantage of these opportunities. Yet, there are disadvantages as well with some fears that local cultures and traditions may be lost over time.

As the P&G example illustrates, the greater the differences between countries and the more significant these differences are for a product or service, the greater the need is for a local approach. However, forces can simultaneously push toward global and local emphases, requiring firms to be globally integrated and locally responsive. In the case of P&G, the manufacturing process was globally integrated because making detergent is basically continuous, that is, like many chemical products, the final product is delivered after a long process of mixing various chemicals in different states and temperatures until the desired chemical reactions create the final product. Thus, the process cannot be stopped at discrete points and finished elsewhere, nor is it economical to alter the process to create different detergents. Both of these factors necessitated a global approach concentrating the manufacturing activities without many modifications being made for local markets. On the other hand, the significant differences in washing machines between Germany and France required attention to local needs.

In general, firms heavily involved in international business face strong pressures for both integration and differentiation. They need specialists for certain functions, such as marketing to Germans, dealing with French government officials, and complying with U.S. accounting rules. However, they also face greater needs for integration. Using one or more of the following structural mechanisms—direct contact, liaisons, and teams—can meet these increased integration needs.

**DIRECT CONTACT** Often, direct contact is an important means of integration by sharing information. One of the largest firms in the world, Matsushita, has an interesting way of accomplishing this. Because R&D is vitally important in the consumer electronics industry, Matsushita has a large central research and development lab, as explained earlier in the chapter. To ensure that managers are informed about activities in the lab, and to ensure that lab scientists understand emerging market needs around the globe, Matsushita holds an annual, worldwide, internal trade show. Senior managers throughout Matsushita’s world-wide operations gather and examine research results and potential new products. Managers also provide to R&D scientists information about market differences, customer preferences, and competitor positioning. The result is a massive sharing of information through direct contact that has helped Matsushita maintain its competitive advantage.

**LIAISONS** Liaison roles are designed to enhance the links, and, therefore, information flows, between two or more groups, including teams, departments, divisions, and subsidiaries. Part of Matsushita’s success in the videocassette recorder (VCR) market was due to a purposeful liaison: The vice president in charge of Matsushita’s U.S. subsidiary was also a member of the senior management committee of the Japanese parent company and spent about a third of his time in Japan. This facilitated the link between headquarters and the United States, which was the most important consumer market for VCRs. In addition, the general manager of the U.S. subsidiary’s video department had previously worked for many years in the video product division of the production and domestic marketing organization in Japan. This created a strong link between the product division in Japan and the U.S. subsidiary. Also, the assistant product manager of the U.S. subsidiary had spent five years in Matsushita’s central VCR manufacturing plant in Japan. Via these three individuals, Matsushita ensured there were vital links at the corporate, product, and factory levels between Japan and the United States.

**TEAMS** When integration needs arise across an array of functional areas, teams can serve as an effective integration mechanism. Philips uses teams as an integrative mechanism. For example, Philips has long had an office of the president, as opposed to a single CEO. The office of the president consists of technical, commercial, and financial executives. Furthermore, for each product, there is a team of junior managers from the firm’s commercial and technical functions. These teams integrate various perspectives and information on a single product to ensure that they resolve interfunctional differences early and that they integrate necessary design, manufacturing, and marketing needs and concerns from the outset in an effort to increase the success of a product.
Managerial Challenges from the Front Line

The Rest of the Story

While a matrix structure often shows some response activities because of the need to make joint decisions and coordinate actions prior to implementing them, in Halliburton’s case, the structure worked very well. The challenge presented by the competitor required a coordinated response. The matrix structure facilitated this response because managers already had established working relationships and coordinated their efforts on a regular basis. Thus, they were able to jointly ensure that employees understood the overall benefits of working for Halliburton and assure them that the company valued them as employees.

Luis Freire traveled extensively, visiting his project teams in the field to discuss the issues with them. This extensive effort on the part of Freire and his colleagues was effective. Halliburton lost very few employees to the competitor, and the turnover among professional employees was no greater during this period than other more normal time periods. Managers were pleased they were able to keep the high-quality human capital that Halliburton works hard to attract, develop, and retain.

Summary

- A firm’s organization structure can be defined as the sum of the ways in which it divides its labor into distinct tasks and then coordinates them. The structure provides the blueprint for the reporting relationships, controls, authority and decision making in the organization. Organizational design is the process of assessing the firm’s strategy and environmental demands and determining the appropriate organizational structure. Often, organizational structure is discussed in terms of organizational charts. Organizational charts illustrate relationships among units and lines of authority among supervisors and subordinates through the use of labeled boxes and connecting lines.
- Important dimensions of the organizing process include differentiation and integration. Differentiation is the extent to which tasks in the organization are divided into subtasks and performed by individuals with specialized skills. The main benefit of differentiation is greater specialization of knowledge and skills. Integration is the extent to which various parts of the organization interact, coordinate, and cooperate with each other. The primary benefit of integration is the coordinated actions of different people and activities to achieve a desired organizational objective.
- Formalization, informalization, centralization, and decentralization are structural dimensions that balance and help to manage differentiation and integration. Formalization is represented by the defined structures and systems in decision making, communication, and control in the organization. These mechanisms usually explicitly define where and how people and activities are independent along with how they are integrated. The informal organization consists of the unofficial but influential means of communication, decision making, and control that are part of the habitual way things get done in the organization. Centralization and decentralization refer to the level at which decisions are made—at the top of the organization or at lower levels. Centralized organizations tend to restrict decision making to fewer individuals, usually at the top of the organization. In contrast, decentralized organizations tend to push decision-making authority down to the lowest possible level.
There are six common organization structures, functional, product, division, customer, geographic or region, and matrix. The functional structure is used to organize the firm around traditional functional areas, such as accounting, finance, marketing, operations, and so on. In a product structure, the firm is organized around specific products or related sets of products. Divisions typically consist of multiple products within a generally related area, though specific products may not necessarily be closely related. Customer structures are organized around categories of customers. Firms can develop a structure around various geographical areas or regions. A matrix structure consists of two organization structures superimposed on each other. As a consequence, there are dual reporting relationships.

One of the most contemporary structures is the network structure. A common network structure results from outsourcing. Often, firms outsource noncore activities of their value chain so that they can focus on core activities that give them a competitive advantage.

Designing organizations must be done within the context of the organization’s external environment and its strategy. The environment’s complexity and dynamism are important in designing organizations. Environmental complexity is fundamentally the breadth and depth of differences and similarities in an organization’s external environment. Static environments may have few or many factors, but these factors tend to remain stable over time. Dynamic environments change constantly. The structure should complement and leverage the strategy. A division structure is commonly used to complement a multiproduct strategy.

Firms usually begin with simple structures, such as an international department or international division, as they venture into international markets. However, their international structures grow more complex over time as they enter more countries. The structures chosen usually depend on the amount of the firm’s foreign sales and degree of product diversification.

### Key Terms
- centralized organizations 176
- cognitive differentiation 171
- decentralized organizations 176
- differentiation 170
- environmental complexity 188
- flat organization structure 174
- formalization 173
- global approach 192
- informal organization 175
- integration 171
- interdependence 171
- reconsideration 196
- line of authority 173
- local approach 192
- network structures 187
- organizational charts 170
- organizational design 170
- organizational structure 170
- outsourcing 192
- pooled interdependence 171
- profit center 180
- reciprocal interdependence 172
- sequential interdependence 171
- span of control 173
- tall organization structure 173
- task differentiation 171
- uncertainty 172
- unity of command 173
- values 172

### Review Questions
1. What are the concepts of organization structure and organization design, and how do they differ?
2. What are differentiation and integration, and what is their role in organization structure?
3. How are formalization, informalization, centralization, and decentralization interrelated, and how can organizations use them to balance differentiation and integration?
4. What are six common organization structures and their strengths and weaknesses?
5. How does a network structure facilitate managing activities and help a company achieve a competitive advantage?
6. How do environmental factors and the organization’s strategy affect the type of structure it should adopt?
7. What organization structures are most effective for organizations operating in international markets? Explain why.
Assessing Your Capabilities

Risk Taking Orientation

Answer the following questions using the scale below:

<table>
<thead>
<tr>
<th></th>
<th>1: Strongly Disagree</th>
<th>2: Disagree</th>
<th>3: Neutral</th>
<th>4: Agree</th>
<th>5: Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I prefer to think of opportunities in the future as opposed to focusing on past outcomes or even current tasks.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>If I had $100 to invest, I prefer to do so in a way that ensures a return (e.g., 3 percent CI) and no loss of the original amount invested, rather than one in which I could potentially earn as much as a 20 percent return on my investment but with a reasonably high risk of earning no return and potentially losing a portion of the original investment.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>I like to work with new ideas and undertake new tasks because they motivate me.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>I dislike regular change, preferring instead a steady work environment in which my tasks are predictable.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>When I am given a task to accomplish, I prefer autonomy to complete it in the way I desire.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Rules and established procedures are very helpful in getting a job done.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>When given a new task to do, I find the careful directions and oversight of a supervisor to be helpful and comforting.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>I believe in being aggressive (as opposed to passive) in accomplishing tasks that I am assigned.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>9</td>
<td>In most situations, I feel most comfortable when people undertake traditional roles (e.g., traditional gender roles).</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>When considering complex decisions with uncertain outcomes, I prefer to make the decision alone because I can do it faster than in working in a group.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Scoring Your Answers:

Add the numbers you assigned as responses to questions 1, 3, 5, 6, and 9 (Set 1) and those assigned to questions 2, 4, 7, and 8 (Set 2). Subtract the total score for Set 2 from the score for Set 1.

If the resulting score is positive, you prefer to take risks and feel comfortable operating in ambiguous and uncertain situations. The highest positive score you could obtain is +20.

If the resulting score is negative, you prefer a more certain and structured environment with less risk. The lowest negative score you could obtain is −20.
Team Exercise

Form a team of three to five people. Your team has been hired as a consultant to help a manager form and structure a new department. Please read the following explanation of the manager’s situation. Then, your team must make recommendations to the manager. You’ll make your recommendations through your team’s answers to the questions at the end of this piece.

The new manager has been offered the position of brand manager for a new sports drink produced by a large food and beverage company. Her manager has asked her how she wants to structure her unit. Specifically, how many people will she need in her department and how should their jobs be structured.

Most new managers at this level have about 4 to 6 subordinates. The new manager indicates that she could have as few as 3 and as many as 15, depending on what she requests and her rationale for the request. Prior to this promotion, the new manager worked on a brand team for three years and acted as the informal team leader for the last 14 months. She was told that part of the reason she was given the promotion was because of how well she managed her team, which consisted of 3 other employees who were all doing primarily market research work.

The new sports drink has been on the market for six months and has enjoyed a successful launch in the United States and Asia. Continued expansion in Europe and Latin America is expected. Below is a brief profile of the 13 potential subordinates prepared by the new manager.

Market Researcher: Three different people are currently doing marketing research on the product. Much of their work was done prior to the launch, and now they focus on customer satisfaction and the competitive response to the product. Two of the people work in the United States (one on the East Coast and one on the West Coast), and the other works in Japan.

Statistician: There are two statisticians. One currently is based in the firm’s corporate headquarters on the East Coast, and the other is based in the European regional headquarters in London. Both do a similar job of analyzing data to identify statistical relationships between customer characteristics, product characteristics, marketing and promotion activities, and buying patterns.

Advertising Specialist: There are three advertising specialists. One deals primarily with print media; one focuses on broadcast media (principally radio and TV); the third specializes in “alternative advertising” that includes everything from promotional contests to the Internet. The print ad and broadcast staff are based in the company’s East Coast office, whereas the alternative advertising person telecommutes from his home in San Diego. The company’s West Coast office closest to San Diego is in Los Angeles.

Administrative Assistant: There is one administrative assistant, who works for the brand manager that launched the sports drink. This individual acts as secretary, organizer, and general assistant to the brand manager.

Marketing Specialist: There are four marketing specialists. Each one resides in a different region (the United States, Asia, Europe, or Latin America). These people are primarily responsible for creating the marketing strategy for their regions. Given that the product has not yet been launched in Europe and Latin America, the two individuals in those regions are currently working on other products and task forces.

Based on this information, reading of the chapter material, and external search for information (if needed), your team should formulate its advice to the new manager by providing answers to the following questions.

1. How many total subordinates should she request? What should be her span of control?
2. Are all the jobs listed necessary? Please explain. How many subordinates should she request in each job and why?
3. Are there other jobs that you recommend she should include? Should all people report directly to her or should there be one or more supervisors? Please be specific.
4. How much formalization should the new manager develop? How much autonomy should she provide employees in each job category?
n 2003, Kimberly-Clark, the maker of paper products including Kleenex, Huggies, and Depend, announced it was creating a radical new structure to shore up parts of its business that were performing poorly by restructuring its products into three categories. The categories were “grow,” “sustain,” and “fix”—somewhat unconventional categories. They were not devised based on product type, customers, or geographic locations in which Kimberly-Clark sold goods, but instead on the perceived strength of the products themselves.

Background
Kimberly-Clark and Company was established in 1872 by four young businessmen, John A. Kimberly, Harvey Babcock, Charles B. Clark, and Frank C. Shattuck. Based in Neenah, Wisconsin, the company initially manufactured paper, but over the years it began to branch out, broadening into the personal hygiene consumer products area to compete with companies like Procter & Gamble.

In 1978, Kimberly-Clark introduced what would become its top seller: Huggies disposable diapers. Huggies were an instant hit and soon became the nation’s number one brand. Over the course of the next two decades, Kimberly-Clark introduced Depends for adults, training pants for toddlers, and acquired Scott Paper, a leading maker of toilet paper and paper towels. Today, the merged company sells its products in over 150 countries around the world. In 80 of those countries, it holds the number one or number two spot in the marketplace. It has physical operations in 37 countries and employs more than 55,000 employees.

Restructuring Problems
Like many corporate mergers, the merger between Kimberly-Clark and Scott Paper in 1995 didn’t roll out smoothly. Most of Scott’s senior management team left after the merger, and Kimberly-Clark experienced problems integrating the two companies. The following year, operating income and sales dropped.

By the late 1990s, the company’s senior managers had finally worked through the integration challenges of the merger. But the dawn of the twenty-first century brought new challenges. Chief among these was the lack of growth in developed countries for Kimberly-Clark products due to market saturation. To continue to grow, the company had to look to new markets. The company was also losing market share to its fiercest rival, P&G. By introducing a high-end line of Pampers in 2002, P&G had been able to capture market share from Huggies. Given the tough competition in the disposable diapers industry, Kimberly-Clark tried to diversify by producing a related product: disposable baby wipes. But these growth plans were upset when Johnson & Johnson, the prominent maker of baby shampoo, launched its own line of baby wipes.

It was within the context of these competitive dynamics that Kimberly-Clark’s senior managers announced their radical reorganization plan in 2003. The “grow” category (Brands and sectors growing the fastest) included products such as training pants, household towels and wipes, and Kleenex. The “sustain” category (brands generating solid returns) included U.S. infant care products and other facial tissue lines. Whereas, the “fix” category included products related to European personal care along with the U.S. professional washroom business. The sales of these products were relatively flat. And although they accounted for about 20 percent of the firm’s total sales, they contributed only 10 percent of the profits.

Kimberly-Clark’s senior managers argued that the reorganization would help increase the company’s speed to market, streamline its decision-making regarding allocating capital, and deliver cost reductions on a sustainable basis. However, simultaneous to the reorganization announcement, Kimberly-Clark announced it had revised its forecasts for sales increases downward from 6 percent to 8 percent annually to 3 percent to 5 percent. Predictably, shareholders reacted negatively, and Kimberly-Clark’s stock price closed down immediately after the announcements. Thus, executives began to reconsider the planned changes.
Kimberly-Clark eventually presented a new and different organizational structure in early 2004. Rather than organize products by the “grow, sustain, and fix” categories, management announced that it would organize around personal care, washroom products, and emerging markets. Specifically, management planned to combine the company’s North American and European personal care groups under one organizational unit. The same would happen for products related to the washroom business. In addition, management planned to create an “emerging markets” business unit to maximize the growth of all Kimberly-Clark’s products in Asia, Latin America, and Eastern Europe.

Questions
1. Why would Kimberly-Clark executives restructure the company based on “grow, sustain, and fix” categories? What disadvantages might result from such a structure?
2. Was the organizational structure presented by Kimberly-Clark executives in 2004 better than the first structure proposed? Why or why not?