***Organization Theory and Design*, 4Ce**

**Enriched Instructor’s Manual**

**Chapter 1: Organizations and Organization Theory**

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**CHAPTER OVERVIEW**

This chapter introduces students to characteristics of organizations and to the perspective that organizations are systems of interrelated units that have to adapt to their environment to survive. Definitions and examples are given to provide students with an understanding of the importance of organizational theory in becoming better managers and leaders in a rapidly changing world. The Hudson’s Bay Company (HBC) case that opens the chapter is an interesting case to refer to during the semester and to update using current business analyses.

Organizational theory is discussed in historical stages and is shown to have practical application for managers. A framework for the content and topic of each chapter is also provided. Instructors can use this as an introductory overview and also as a frame of reference throughout the course.

**PURPOSE OF THIS CHAPTER**

This chapter provides students with the building blocks for and the language of organization theory and design.

**IF NOTHING ELSE, MY STUDENTS SHOULD LEARN …**

1. That organizations are ubiquitous and have a profound impact on individuals, other organizations, and society.

2. The meaning of structural and contextual dimensions and the concept of “contingency.”

**LEARNING OBJECTIVES**

After completing this chapter, students should be able to

1. Outline the historical evolution of organizational design. *[Remember]*
2. Discuss current challenges that organizations face. *[Understand]*
3. Describe the importance of organizations in society. *[Remember]*
4. Compare and contrast organic and mechanistic organization designs, including the contingency factors typically associated with each. *[Understand & Apply]*
5. Describe how the structural dimensions of organizations are shaped by contingencies organizations face. *[Remember]*
6. Explain the current trend toward “bossless” design. *[Understand]*

**HOW DOES THIS CHAPTER RELATE TO THE REAL WORLD?**

1. As already noted, organizations are ubiquitous.

2. Organizations today are facing many challenges; they need to respond by understanding old organizational designs and creating new organizational designs.

3. A well-designed organization can be the source of significant competitive advantage.

**WHY SHOULD STUDENTS CARE?**

1. Students need to understand why and how organizations are structured so that they can navigate their workplaces.

2. Students can become better informed about what types of organizations they may like to work at.

**WHAT ARE COMMON STUDENT MISCONCEPTIONS AND STUMBLING BLOCKS?**

1. Students believe bureaucracies are “bad” and flat organizations are “good.”

2. Students find some of the OTD concepts non-intuitive.

**WHAT CAN I DO IN CLASS?**

**Stumbling Block Activities**

In class, **use** **Chapter 1 Workbook: Measuring Dimensions of Organizations** to show how different organizations are structured and why. Reinforce the idea of contingency. *[Stumbling Block 1]*

**Watch** <http://www.youtube.com/watch?v=QAJ3YV7k3o8&feature=related> for some thoughtful insights from Henry Mintzberg and **discuss** his main arguments. *[Stumbling Block 1]*

**Ask** students to apply the structural and contextual dimensions to their own families and/or a past or present organization they have been an employee of. *[Stumbling Block 2]*

**Class Engagement Question**

In Mintzberg’s typology, the key part of a simple organization structure is its

a. technostructure

b. operating core

c. middle line

**d. strategic apex**

Use this question to delve in detail into the key elements of the five structural choices—see Exhibit 1.6A and Exhibit 1.6B.

**You & Design**

The You & Design questionnaire done as a group activity will allow students to discover their own style and discuss ways in which leaders’ styles impact an organization.

**Discussion Questions and Suggested Answers**

**1. What is the definition of *organization*? Briefly explain each part of the definition.**

An organization is a (1) social entity that is a (2) goal-directed, (3) deliberately structured activity system with a (4) link to the external environment. *Social entity* means that an organization consists of people; the human being is the basic building block of an organization, which makes it different from other types of systems. *Goal-directed* means that an organization exists for a purpose. It is created to achieve some end. *Deliberately structured activity system* means that an organization is deliberately subdivided into distinct sets of activities that use the knowledge and technology needed to do the work. The *link to the environment* includes interactions with customers, suppliers, competitors, the government, and other elements of the external environment.

**2. What is the difference between an open system and a closed system? Can you give an example of a closed system? How is the stakeholder approach related to this concept?**

The difference is in the relationship with the external environment. An open system has an exchange relationship with the environment and must import resources from the environment to survive. A closed system is completely autonomous and does not need external resources. In a sense, there is no such thing as a closed system, although some managers in organizations that are insufficiently tuned in to their environments act as if they are in a closed system. However, any completely closed-off system would eventually die. Some machine systems, such as a satellite with a nuclear reactor, come close to being closed systems because they last for years without energy from the environment. The stakeholder approach illustrates that an organization is an open system, which needs to recognize and deal with its external stakeholders.

**3. Explain how Mintzberg’s five basic parts of the organization illustrated in Exhibit 1.6 work. If an organization had to give up one of these five parts, which one could it survive the longest without? Discuss.**

Students should refer to each of the five parts and describe them in detail. Because all subsystems are interdependent, there is not one *correct* answer to the last question; however, the discussion will ensure that students understand each subsystem’s interactive relationship to all others.

**4. A handful of companies on the *Fortune* 500 list are more than 100 years old, which is rare. What organizational characteristics do you think might explain 100-year longevity?**

Companies that maintain longevity must be flexible. This includes flexibility with organizational structures and ongoing relationships with employees and the external environment. The ability of organizations to offer competitive pricing and to bring together resources in an innovative manner and over time contributes to their success. Scientific management has played a role in this, and the Hawthorne studies aided in the understanding that positive treatment of workers contributes to their longevity within the organization, which decreases turnover and maximizes expertise among the labour pool. Also, the ability to embrace technology and knowledge is critical to most organizations’ success and longevity.

**5. What is the difference between formalization and specialization? Do you think an organization high on one dimension would also be high on the other? Discuss.**

Formalization refers to the amount of written documentation used to direct the organization, including procedures, job descriptions, and policy manuals. Specialization refers to the extent to which tasks are subdivided so that each employee performs only a narrow set of activities.

Generally, these characteristics are associated, so an organization tends to be high or low on both dimensions. As an organization becomes large, for example, tasks become more specialized. Formalization is then required to provide rules and regulations to specify specialization. Some organizations may deviate from this relationship, but generally an organization high on one characteristic will tend to be high on the other.

**6. What does *contingency* mean? What are the implications of contingency theories for managers?**

Contingency means that one thing depends on other things, and therefore for an organization to be effective there must be a good fit between its internal structure and its external environment. There are no universal principles that apply to every organization in every situation. There is not one best way.Contingency means “it depends.” Thus, managers should diagnose a particular situation carefully before deciding on the management approach to take.

**7. What are the primary differences between an organization designed for efficiency and one designed for flexibility? Discuss the pros and cons of each approach for today’s organizations.**

An organization designed for efficient performance is more *traditional* in its top-down orientation as opposed to one designed for learning, which is geared toward collaboration so that everyone is engaged in identifying and solving problems. As organizations face increasing environmental uncertainty, they need to become more flexible in design and take a learning approach in their systems. Major differences can be seen in the chart that follows.

| **Efficient Performance** | **Learning Organization** |
| --- | --- |
| Vertical, functional groupings | **Structure** around horizontal workflows or processes |
| **Tasks** are routine and narrowly defined | Empowered roles are emphasized |
| Formal control systems to manage complex **information** | Widespread sharing of information with open channels of communication |
| Top management strategy is competitive | Collaborative **strategy** emerges from employee relationships with customers, suppliers, etc. |
| **Culture** may become rigid from having been successful in stable environment | Culture adaptive to external environment |
| Having layers of managers just eats up costs and slows down response time | Extremely organic “bossless” design; no job titles, people work together on an equal basis |

**Chapter 1 Workbook: Measuring Dimensions of Organizations**

This activity allows students to begin to understand different organizations’ dimensions. Ask students what dimensions they look for in an organization that they would like to work for. Ask them to list the dimensions and also why they prefer some to others. For example, if they have a preference for empowered work roles and decision making, they should also understand that those elements carry with them specific responsibilities and accountability for results. This can add pressure for some people who may not be used to results-based performance management. Also, most students will identify an organization with low formalization and few written rules as a preference. A discussion on this could illustrate that low formalization also means that it is difficult to know how to handle a problem because this organization may also lack written procedures about how to handle it. This can lead to inconsistencies, especially if it is in a customer service context.

Next, divide the class into groups and have them share their lists and reasons to see if there are any common themes that emerge from the group. You may want to write them on the board or on a PowerPoint slide and discuss why some themes are repeated. You could also have a discussion about multiple generations in the workplace and how those lists may differ because of different expectations and experience levels of employees.

Caution students not to consider any relationships between dimensions as cause-and-effect or dependent. Relationships between dimensions, at this point, are to be regarded only as a basis for discussion. The textbook will present findings on relationships between dimensions in subsequent chapters.

**Alternative Classroom Activities**

Another helpful way to summarize the chapter highlights for students is to show them a short video clip on an organization that most of them would know (e.g., Google; several YouTube videos are available) and then use the chart from the workbook to identify where Google may fit on each of these dimensions. A discussion can help students understand many different aspects of Google—not just the positive ones.

In contrast, show a video on Seattle’s Fish Market (another YouTube video)—or any other organization that you are familiar with and that demonstrates a rather unconventional culture and task structure—and ask students to rate this organization on the same dimensions. It makes for a very interesting and memorable discussion.

**Case for Analysis: GE**

**Assignment Questions and Suggested Answers**

**1. What accounted for GE’s success in the Welch years?**

When Jack Welch took the helm as CEO in 1981, one of his first moves was to radically change the corporate structure, reducing the layers of management and expanding the span of control of individual managers. He also implemented a new culture that emphasized open, direct, candid communication. In his two decades as CEO, for which *Fortune* named him “Manager of the Century,” he made many more strategic changes, took the company global, and launched the organization’s e-business.

**2. What factors contributed to GE’s decline?**

Welch chose Jeff Immelt to be his successor. Although he pushed for global growth and innovation, GE’s value steadily declined. Many analysts felt that Immelt did not adequately address problems that arose during his tenure. John Flannery then briefly led GE from 2017 to 2019, but he could not reverse GE’s falling stock prices either. By the time Larry Culp assumed the CEO role, GE’s value had fallen to about 10 percent of its former value. Culp immediately began implementing a plan to streamline and trim down the extremely complex conglomerate.

**3. Look up GE’s stock price and its trend for the last year. Do you share the analysts’ optimism? Why/not?**

Not provided, as this will change from year to year.

**Integrative Case 4.0: IKEA: Scandinavian Style**

**Case Summary**

This case describes the evolution of IKEA, from its founding in 1943 to the challenges it faces now that it is a global organization. Ingvar Kamprad, founder of IKEA, grew up on a farm and was entrepreneurial even as a child, by selling matches that he had bought in bulk. In 1943, aged 17, he founded IKEA. His goal was to provide low-cost furniture to the many who could not afford furniture. He used vertical integration to create a strong relationship with suppliers and was able to out-manoeuvre his competition by building even stronger relationships with his suppliers. Today, IKEA works with 1,300 suppliers in 53 countries.

IKEA has built a culture around the values of frugality and rural Sweden—IKEA is about “creating a better everyday life for the majority of people.” However, that does not mean sacrificing quality or design. IKEA is essentially about creating a lifestyle.

IKEA pursued global expansion. By 2010, there were 332 IKEA stores in 41 countries. The expansion was not always smooth as IKEA did not anticipate local requirements; for example, North American customers expected beds to be sized to North American measures and many customers around the world found the Swedish product names confusing.

While IKEA is driven by standardization, it has developed innovations such as the flat packaging and reduction of waste in packaging. IKEA supports various children’s charities in addition to working toward reducing its carbon dioxide emissions.

**Assignment Questions and Suggested Answers**

**1. Using the contextual dimensions presented in Chapter 1, describe IKEA**.

a) *Environment*: IKEA’s environment has been changing and continues to do so as IKEA attempts to expand its global reach. It is now competing in an environment that is very different from its rural Swedish roots.

b) *Goals and Strategies*: IKEA’s goals are to create modestly priced, well-designed furniture so most people can afford it. IKEA wants to sell a lifestyle. It does so by working closely with its supply chain to reduce costs while working with Scandinavian designers to capture a little bit of Sweden.

c) *Size*: IKEA has a large retail and online presence. However, as it does not manufacture its products, it is seen as a hollow organization.

d) *Culture*: IKEA has a strong culture, embedded in and supported by the rural values of frugality and family.

e) *Technology*: IKEA transforms inputs into outputs through its suppliers’ manufacturing processes and then passes on the assembly processes to its customers.

**2. Which of IKEA’s stakeholders are the most important and why?**

While all the stakeholders are important, the suppliers and the customers are paramount. IKEA also tries to create an employee focus in its culture, in the way it refers to employees as co-workers.

**3. What concerns (if any) do you have about IKEA’s global future?**

IKEA needs to do more pre-work in its global expansion because it has underestimated the importance of diversity and local norms in its earlier expansions. It will need to manage the tension between mass standardization and responsiveness to local market demands. As it says in the case, IKEA “nearly blew it” in America. It is a lesson that IKEA needs to take to heart to be strategic in any future global expansion.

**Assessment Tools**

Refer to the accompanying Test Bank for assessment purposes.

**Reflections on Teaching**

Reflect on **your** classroom experience by reviewing the following questions:

* What worked? What didn’t? Why and why not?
* Were students engaged? Were they focused or did they go off on tangents?
* Did my assessments suggest that they understood the key concepts?
* What should I do differently next time?
* How can I gather student feedback?