

# Richard L. Daft



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Organization Theory & Design | 12e

# Richard L. Daft

*Vanderbilt University*



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Organization Theory & Design | 12e



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My vision for the Twelfth Edition of *Organization Theory and Design* is to integrate current organization design problems with significant ideas and theories in a way that is engaging and enjoyable for students. There is an average of 37 new citations per chapter for new findings and examples that make the Twelfth Edition current and applicable for students. In addition, significant elements of this edition include “Managing by Design Questions” and “How Do You Fit the Design?” boxes, along with updates to every chapter that incorporate the most recent ideas, new case examples, new book reviews, and new end-of-book integrative cases. The research and theories in the field of organization studies are rich and insightful and will help students and managers understand their organizational world and solve real-life problems. My mission is to combine the concepts and models from organizational theory with changing events in the real world to provide the most up-to-date view of organization design available.

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## Distinguishing Features of the Twelfth Edition

Many students in a typical organization theory course do not have extensive work experience, especially at the middle and upper levels, where organization theory is most applicable. Moreover, word from the field is that many students today often do not read the chapter opening examples or boxed examples, preferring instead to focus on chapter content. To engage students in the world of organizations, the Twelfth Edition uses “Managing by Design Questions” at the start of each chapter. These questions immediately engage students in thinking and expressing their beliefs and opinions about organization design concepts. Another in-chapter feature, “How Do You Fit the Design?” engages students in how their personal style and approach will fit into an organization. Other student experiential activities that engage students in applying chapter concepts include new “BookMarks,” new “In Practice” examples, new end-of-chapter cases, and new integrative cases for student analysis. The total set of features substantially expands and improves the book’s content and accessibility. These multiple pedagogical devices are used to enhance student involvement in text materials.

**How Do You Fit the Design?** The “How Do You Fit the Design?” feature presents a short questionnaire in each chapter about the student’s own style and preferences to quickly provide feedback about how they fit particular organizations or situations. For example, questionnaire topics include “What Is Your Cultural Intelligence?” “Your Strategy Strength,” “Are You Ready to Fill an International Role?” “Corporate Culture Preference,” “Is Goal-Setting Your Style?” “Making Important Decisions,”

and “Personal Networking.” These short feedback questionnaires connect the student’s personal preferences to chapter material to heighten interest and show the relevance of chapter concepts.

**Managing by Design Questions.** Each chapter opens with three short opinion questions that engage students in clarifying their thoughts about upcoming material and concepts. These questions are based on the idea that when students express their opinions first, they are more open to and interested in receiving material that is relevant to the questions. Example questions, which ask students to agree or disagree, include:

*A certain amount of conflict is good for an organization.*  
*The best measures of business performance are financial.*  
*Savvy organizations should encourage managers to use Twitter.*  
*A CEO’s top priority is to make sure the organization is designed correctly.*  
*Managers should use the most objective, rational process possible when making a decision.*

As a follow-up to the three “Managing by Design” questions, each chapter contains three “Assess Your Answer” inserts that allow students to compare their original opinions with the “correct” or most appropriate answers based on chapter concepts. Students learn whether their mental models and beliefs about organizations align with the world of organizations.

**BookMarks.** “BookMarks” are short book reviews that reflect current issues of concern for managers working in real-life organizations. These reviews, which represent a unique feature of this text, describe the varied ways companies are dealing with the challenges of today’s changing environment. New “BookMarks” in the Twelfth Edition include *Great by Choice: Uncertainty, Chaos, and Luck—Why Some Thrive Despite Them All*, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, *Conscious Capitalism: Liberating the Heroic Spirit of Business*, and *Creativity Inc.: Overcoming the Unseen Forces That Stand in the Way of True Inspiration*.

**In Practice.** This edition contains many new “In Practice” examples that illustrate theoretical concepts in organizational settings. Many examples are international, and all are based on real organizations. There are 50 new “In Practice” cases used within chapters, including Fujifilm Holding Corporation, Carnival Cruise Lines, Omnicom and Publicis, Amway, Harley Davidson, Morning Star, Valve Software, Amazon, the *Freaky Friday* Management Technique, Bloomberg PLC, Apple, Taco Bell and Frito Lay, L’Oreal, the U.S. Military, Box, BNSF Railway, Toyota Motor Corporation, Royal Dutch Shell PLC, United Health Group, Allegiant Travel, The Vatican, Nike, Richard Ginori, Caesar’s Entertainment, International Alliance of Theatrical Stage Employees, Dell, Town of Sandy Springs, Georgia, Panasonic, Zappos, and Narayana Hrudayalaya Hospital.

**Manager’s Briefcase.** Located in the chapter margins, this feature tells students how to use concepts to analyze cases and manage organizations.

**Text Exhibits.** Frequent exhibits are used to help students visualize organizational relationships, and the artwork has been redone to communicate concepts more clearly.

**Design Essentials.** This summary and interpretation section tells students how the essential chapter points are important in the broader context of organization theory and design.

**Case for Analysis.** These cases are tailored to chapter concepts and provide a vehicle for student analysis and discussion. New cases for analysis include “It Isn’t So Simple: Infrastructure Change at Royce Consulting,” “The Venable Museum of Art,” “CPI Corporation: What Happened?,” “AV Corporate: Software Tool Project,” “Yahoo: *Get to Work!*,” “The Boys Versus Corporate,” and “Medici Mediterranean Restaurant.”

**Integrative Cases.** The integrative cases at the end of the text have been expanded and positioned to encourage student discussion and involvement. The new cases include W. L. Gore—Culture of Innovation, Engro Chemical Pakistan Limited: Restructuring the Marketing Division, Sometimes a Simple Change Isn’t So Simple, Rondell Data Corporation, and Disorganization at Semco: Human Resource Practices as a Strategic Advantage. Previous cases that have been retained include IKEA: Scandinavian Style, First Union: An Office Without Walls, Lean Initiatives and Growth at Orlando Metering Company, Costco: Join the Club, The Donor Services Department, Cisco Systems: Evolution of Structure, and Hartland Memorial Hospital.

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## New Concepts

Many concepts have been added or expanded in this edition. New material has been added on the increasing complexity of the organizational environment, social business, goal conflict and the hybrid organization, big data analytics, the green movement and sustainability, the need for collaboration, social network analysis, quasirationality, manager decision-making biases, stages of disruptive innovation, the smart factory and trends in manufacturing, innovation contests and crowdsourcing, types of resource-dependent relationships, radical decentralization and bossless organization design, conscious capitalism, and global teams as a way to resolve the tension between a need for global uniformity and a need for local responsiveness.

---

## Chapter Organization

Each chapter is highly focused and is organized into a logical framework. Many organization theory textbooks treat material in sequential fashion, such as “Here’s View A, Here’s View B, Here’s View C,” and so on. *Organization Theory and Design* shows how they apply in organizations. Moreover, each chapter sticks to the essential point. Students are not introduced to extraneous material or confusing methodological squabbles that occur among organizational researchers. The body of research in most areas points to a major trend, which is reported here. Several chapters develop a framework that organizes major ideas into an overall scheme.

This book has been extensively tested on students. Feedback from students and faculty members has been used in the revision. The combination of organization theory concepts, book reviews, examples of leading organizations, self-insight questionnaires, case illustrations, experiential exercises, and other teaching devices is designed to meet student learning needs, and students have responded favorably.

---

## Supplements

**Companion Website.** Access important teaching resources on the companion website. For your convenience, you can download electronic versions of the instructor supplements at the password-protected section of the site, including the Instructor's Manual, Test Bank, and PowerPoint presentations.

To access these additional course materials and companion resources, please visit [www.cengagebrain.com](http://www.cengagebrain.com). At the CengageBrain.com home page, search for the ISBN of your title (from the back cover of your book) using the search box at the top of the page. This will take you to the product page where free companion resources can be found.

**Instructor's Manual.** The Instructor's Manual contains chapter overviews, chapter outlines, lecture enhancements, discussion questions, discussion of activities, discussion of chapter cases, and case notes for integrative cases.

**Cognero Test Bank.** The Cognero Test Bank contains easy-to-use test creation software. Instructors can add or edit questions, instructions, and answers and can select questions (randomly or numerically) by previewing them on the screen. Instructors can also create and administer quizzes online.

**PowerPoint Lecture Presentation.** The PowerPoint Lecture Presentation enables instructors to customize their own multimedia classroom presentations. Prepared in conjunction with the text and instructor's resource guide, the package contains approximately 150 slides. It includes exhibits from the text as well as outside materials to supplement chapter concepts. Material is organized by chapter and can be modified or expanded for individual classroom use.

**Experiential Exercises in Organization Theory and Design, Second Edition.** By H. Eugene Baker III and Steven K. Paulson of the University of North Florida.

Tailored to the table of contents in Daft's *Organization Theory and Design*, Twelfth Edition, the core purpose of *Experiential Exercises in Organization Theory and Design* is to provide courses in organizational theory with a set of classroom exercises that will help students better understand and internalize the basic principles of the course. The chapters of the book cover the most basic and widely covered concepts in the field. Each chapter focuses on a central topic, such as organizational power, production technology, or organizational culture, and provides all necessary materials to fully participate in three different exercises. Some exercises are intended to be completed by individuals, others in groups, and still others can be used either way. The exercises range from instrumentation-based and assessment questionnaires to actual creative production activities.

---

## Acknowledgments

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I want to extend special thanks to my editorial associate, Pat Lane. She skillfully wrote materials on a variety of topics and special features, found resources, and did an outstanding job with the copyedited manuscript and page proofs. Pat's personal enthusiasm and care for the content of this text enabled the Twelfth Edition to continue its high level of excellence. I also thank DeeGee Lester for her work drafting new end-of-chapter and integrative cases. DeeGee's creative writing skills brought to life key organizational issues that students will enjoy discussing and solving.

The team at Cengage Learning also deserves special mention. Scott Person did a great job of designing the project and offering ideas for improvement. Managing Content Developers Suzanne Wilder and Josh Wells were superb to work with and kept the people and project on schedule while solving problems creatively and quickly. Jennifer Ziegler and Joseph Malcolm, Project Managers, provided superb project coordination and used their creativity and management skills to facilitate the book's on-time completion. Emily Horowitz, Marketing Manager; Kristen Hurd, Marketing Director; and Christopher Walz, Marketing Coordinator, offered additional support, creativity, and valuable market expertise.

Finally, I want to acknowledge the love and support of my daughters, Danielle, Amy, Roxanne, Solange, and Elizabeth, and my new grandson, Nelson, who make my life special during our precious time together.

*Richard L. Daft*  
*Nashville, Tennessee*  
*January 2015*

# Introduction to Organizations

**Chapter 1** Organizations and Organization Design

# 1

PART



Kjel Larsen/Moment/Getty Images

## 1

# Organizations and Organization Design



## Learning Objectives

**After reading this chapter you should be able to:**

1. Define an organization and the importance of organizations in society.
2. Identify current challenges that organizations face.
3. Understand how organization design concepts apply to a major company like Xerox.
4. Recognize the structural dimensions of organizations and the contingencies that influence structure.
5. Understand efficiency and effectiveness, and the stakeholder approach to measuring effectiveness.
6. Explain historical perspectives on organizations.
7. Explain the differences in organic and mechanistic organization designs and the contingency factors typically associated with each.
8. Discuss the current trend toward bossless organization design.

### A Look Inside Xerox Corporation

What Went Wrong? • Entering the Digital Era  
• The Culture Problem • Shaking Up a Century-Old Company • “We No Longer Make Copiers”

### Organization Design in Action

Topics • Current Challenges • Purpose of This Chapter

### What Is an Organization?

Definition • From Multinationals to Nonprofits • Importance of Organizations

### Dimensions of Organization Design

Structural Dimensions • Contingency Factors  
• Performance and Effectiveness Outcomes

### The Evolution of Organization Design

Historical Perspectives • It All Depends: Key Contingencies

### The Contrast of Organic and Mechanistic Designs

### Contemporary Design Ideas: Radical Decentralization

### Framework for the Book

Levels of Analysis • Plan of the Book • Plan of Each Chapter

### Design Essentials



Before reading this chapter, please check whether you agree or disagree with each of the following statements:

**1** An organization can be understood primarily by understanding the people who make it up.

I AGREE \_\_\_\_\_

I DISAGREE \_\_\_\_\_

**2** The primary role of managers in business organizations is to achieve maximum efficiency.

I AGREE \_\_\_\_\_

I DISAGREE \_\_\_\_\_

**3** A CEO's top priority is to make sure the organization is designed correctly.

I AGREE \_\_\_\_\_

I DISAGREE \_\_\_\_\_

## MANAGING BY DESIGN QUESTIONS

## A Look Inside Xerox Corporation

Everyone has probably used the term *Xerox* to refer to copying pages. Xerox Corporation built its reputation on the copy machine. On the eve of the twenty-first century, Xerox seemed on top of the world, with fast-rising earnings, a soaring stock price, and a new line of computerized copier-printers that were technologically superior to rival products. Less than two years later, however, many considered Xerox a has-been, destined to fade into history. Consider the following events:

- Sales and earnings plummeted as rivals caught up with Xerox's high-end digital machines, offering comparable products at lower prices.
- Xerox's losses for the opening year of the twenty-first century totaled \$384 million, and the company continued to bleed red ink. Debt rose to \$18 billion.
- The company's stock fell from a high of \$64 to less than \$4, amid fears that Xerox would file for federal bankruptcy protection. Over an 18-month period, Xerox lost \$38 billion in shareholder wealth.
- Twenty-two thousand Xerox workers lost their jobs, further weakening the morale and loyalty of remaining employees. Major customers were alienated, too, by a restructuring that threw salespeople into unfamiliar territories and tied billing up in knots, leading to mass confusion and billing errors.

### What Went Wrong?

The company's deterioration is a classic story of organizational mistakes and decline. Although Xerox appeared to fall almost overnight, the organization's problems were connected to a series of organizational blunders over a period of many years.

Xerox was founded in 1906 as the Haloid Company, a photographic supply house that developed the world's first xerographic copier, introduced in 1959. Without a doubt, the 914 copier was a money-making machine. By the time it was retired in the early 1970s, the 914 was the best-selling industrial product of all time, and the new name of the company, Xerox, was listed in the dictionary as a synonym for photocopying. Yet, like many profitable organizations, Xerox became a victim of its own success. Leaders no doubt knew that the company needed to move beyond copiers to sustain its growth, but they found it difficult to look beyond the 70 percent gross profit margins of the 914 copier.

Xerox's Palo Alto Research Center (PARC), established in 1970, became known around the world for innovation—many of the most revolutionary technologies in the computer industry, including the personal computer, graphical user interface, Ethernet, and laser printer, were invented at PARC. But the copier bureaucracy, or *Burox* as it came to be known, blinded Xerox leaders to the enormous potential of these innovations. While Xerox was plodding along selling copy machines, younger, smaller, and hungrier companies were developing PARC technologies into tremendous money-making products and services.

Xerox's market share declined from 95 percent to 13 percent by 1982. And with no new products to make up the difference, the company had to fight hard to cut costs and reclaim market share by committing to Japanese-style techniques and total quality management. Through the strength of his leadership, CEO David Kearns was able to rally the troops and rejuvenate the company by 1990. However, he also set Xerox on a path to future disaster. Seeing a need to diversify, Kearns moved the company into insurance and financial services on a large scale. When he turned leadership over to Paul Allaire in 1990, Xerox's balance sheet was crippled by billions of dollars in insurance liabilities.

## Entering the Digital Era

Allaire wisely began a methodical, step-by-step plan for extricating Xerox from the insurance and financial services business. At the same time, he initiated a mixed strategy of cost cutting and new-product introductions to get the stodgy company moving again. Xerox had success with a line of digital presses and new high-speed digital copiers, but it fumbled again by underestimating the threat of the desktop printer.

Desktop printing, combined with the increasing use of the Internet and e-mail, cut heavily into Xerox's sales of copiers. People didn't need to make as many photocopies, but they still needed effective ways to create and share documents. Rebranding Xerox as "The Document Company," Allaire pushed into the digital era, hoping to remake Xerox in the image of the rejuvenated IBM, offering not just "boxes (machines)" but complete document management solutions.

As part of that strategy, Allaire picked Richard Thoman, who was then serving as Louis Gerstner's right-hand man at IBM, as his successor. Thoman came to Xerox as president, chief operating officer, and eventually CEO, amid high hopes that the company could regain the stature of its glory years. Only 13 months later, as revenues and the stock price continued to slide, he was fired by Allaire, who had remained as Xerox's chairman.

## The Culture Problem

Allaire and Thoman blamed each other for the failure to successfully implement the digital strategy. Outsiders, however, believe the failure had much more to do with Xerox's dysfunctional culture. The culture was already slow to adapt, and some say that under Allaire it became almost totally paralyzed by politics. Thoman was brought in to shake things up, but when he tried, the old guard rebelled. A management struggle developed, with the outsider Thoman and a few allies on one side lined up against Allaire and his group of insiders who were accustomed to doing things the traditional Xerox way. Recognized for his knowledge, business experience, and intensity, Thoman was also considered to be somewhat haughty and unapproachable. He was never able to exert substantial influence with key managers and employees or to gain the support of board members, who continued to rally behind Allaire.

The failed CEO succession illustrates the massive challenge of reinventing a century-old company. By the time Thoman arrived, Xerox had been going through various rounds of restructuring, cost cutting, rejuvenating, and reinventing for nearly two decades, but little had really changed. Some observers doubted that anyone could fix Xerox because the culture had become too dysfunctional and politicized. "There was always an in-crowd and an out-crowd," says one former executive. "They change the branches, but when you look closely, the same old monkeys are sitting in the trees."

## Shaking Up a Century-Old Company

In August 2001, Allaire turned over the CEO reins to Anne Mulcahy, a popular 24-year veteran, who had started at Xerox as a copier saleswoman and worked her way up the hierarchy. Despite her insider status, Mulcahy proved that she was more than willing to challenge the status quo. She surprised skeptical analysts, stockholders, and employees by engineering one of the most extraordinary business turnarounds in recent history.

How did she do it? Few people thought Mulcahy would take the tough actions Xerox needed to survive, but she turned out to be a strong decision maker. She quickly launched a turnaround plan that included massive cost cutting and the closing of several money-losing operations, including the division she had previously headed. She was brutally honest about "the good, the bad, and the ugly" of the company's situation, as one employee put it, but she also showed that she cared about what happened to employees and she gave them hope for a better future. People knew she was working hard to save the company. After major layoffs, Mulcahy walked the halls to tell people she was sorry and let them vent their anger. She personally negotiated the settlement of a long investigation into fraudulent accounting practices, insisting that her personal involvement was necessary to signal a new commitment to ethical business practices. She appealed directly to creditors, begging them not to pull the plug until a new management team could make needed changes.

Mulcahy transferred much of production to outside contractors and refocused Xerox on innovation and service. In addition to introducing new products, Xerox moved into high-growth areas such as document management services,

IT consulting, and digital press technology. A series of small acquisitions enabled the company to enter new markets and expand its base of small and medium-sized business customers.

## “We No Longer Make Copiers”

Mulcahy also thought carefully about succession plans, and in 2009 she handed the top job to her second-in-command, Ursula Burns, who became the first African-American woman to head a *Fortune* 500 company. Burns, like Mulcahy, spent decades climbing the ranks at Xerox, actually starting her career there as an intern before earning a master’s degree in engineering from Columbia University. Just as Xerox dominated the office of yesterday with its copiers, Burns set a new course to dominate the office of tomorrow. More than half of Xerox’s business now comes from services such as running electronic toll solutions on highways and bridges, processing insurance claims, and managing customer call centers. A services deal in trial mode with municipalities in California will give people a ping on their mobile phones saying “There’s a parking spot a block over” and then charge the appropriate amount, which enables cities to maximize parking fees during congested parking times. Sophie Vandebroek, Xerox’s chief technology officer, got tired of people ignoring the cool new technology at the Xerox booth at career fairs in favor of what was going on at the Google or IBM booths. So, a few years ago, she put up a sign that said “We no longer make copiers.” It got plenty of attention from people asking, “So, what *do* you do?”

A decade or so after this American icon almost crashed, Xerox is once again admired in the corporate world. The company was positioned in the “Visionaries” quadrant of Gartner Inc.’s Magic Quadrant for Enterprise Content Management for its ability to deliver content management capabilities, including on-site and cloud-based solutions. Has the “perfect storm” of troubles been replaced with a “perfect dawn”? Burns and her top management team believe Xerox is positioned to be resilient in the face of the current economic slowdown, but in the rapidly changing world of organizations, nothing is ever certain.<sup>1</sup>

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## Organization Design in Action

*Welcome to the real world of organization design.* The shifting fortunes of Xerox illustrate organization design in action. Xerox managers were deeply involved in organization design each day of their working lives—but many never realized it. Company managers didn’t fully understand how the organization related to the environment or how it should function internally. Organization design gives us the tools to evaluate and understand how and why some organizations grow and succeed while others do not. It helps us explain what happened in the past, as well as what might happen in the future, so that we can manage organizations more effectively. Organization design concepts have enabled Anne Mulcahy and Ursula Burns to analyze and diagnose what is happening and the changes needed to help Xerox keep pace with a fast-changing world. Organization design gives us the tools to explain the decline of Xerox, understand Mulcahy’s turnaround, and recognize the steps Burns is taking to keep Xerox competitive.

Similar problems have challenged numerous organizations. Kodak, for example, once ruled the photographic film business but failed to adapt as the business went digital. The company invented one of the first digital cameras and spent hundreds of millions of dollars developing digital technology, but the fear of cannibalizing their lucrative film business paralyzed managers when time came to go to market. Kodak is now struggling to stay alive as it remakes itself into a company that sells printers and ink.<sup>2</sup> Or consider the dramatic organizational missteps illustrated by some U.S. government agencies in recent years. The Secret Service became embroiled in a public relations nightmare when news broke that members of the security team sent to prepare for President Barack Obama's visit to Cartagena, Colombia, engaged in a night of heavy drinking, visited strip clubs, and brought prostitutes to their hotel rooms. Several agents were fired, and director Mark Sullivan and other managers were called before a Senate subcommittee to explain the breakdown in control. The agency was again in trouble in late March 2014 when three agents preparing for Obama's visit to the Netherlands were sent home after one member of the group was found intoxicated and passed out in the hallway of his hotel in Amsterdam.<sup>3</sup> The reputation and effectiveness of the Internal Revenue Service (IRS) was threatened because of a decision to apply additional screening to tax-exempt applications from conservative Tea Party groups. It has long been a practice to give extra scrutiny to certain kinds of groups that present a potential for fraudulent use of tax-exempt status, but critics say the agency went too far in how it applied the practice to conservative political organizations, in some cases delaying applications for years.<sup>4</sup>

## Topics

Each of the topics to be covered in this book is illustrated in the opening Xerox case. Indeed, managers at organizations such as Xerox, Kodak, the Secret Service, and the IRS are continually faced with a number of challenges. For example:

- How can the organization adapt to or control such external elements as competitors, customers, government, and creditors in a fast-paced environment?
- What strategic and structural changes are needed to help the organization attain effectiveness?
- How can the organization avoid management ethical lapses that could threaten its viability?
- How can managers cope with the problems of large size and bureaucracy?
- What is the appropriate use of power and politics among managers?
- How should internal conflict and coordination between work units be managed?
- What kind of corporate culture is needed and how can managers shape that culture?
- How much and what type of innovation and change is needed?

These are the topics with which organization design is concerned. Organization design concepts apply to all types of organizations in all industries. Managers at Hyundai, for example, turned the Korean auto manufacturer once known for producing inexpensive no-frills cars with a poor reputation into the world's fourth largest automaker by relentlessly focusing on quality, cost-control, and customer

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### As an organization manager, keep these guidelines in mind:

Do not ignore the external environment or protect the organization from it. Because the environment is unpredictable, do not expect to achieve complete order and rationality within the organization. Strive for a balance between order and flexibility.

satisfaction. Bob Iger and his top management team revitalized the Walt Disney Company by effectively managing internal conflicts and enhancing coordination both within the company and with outside partners. Managers at high-end cosmetics firm Estée Lauder undertook a major reorganization to improve sales in a weak economy.<sup>5</sup> All of these companies are using concepts based in organization design. Organization design also applies to nonprofit organizations such as the United Way, the American Humane Association, local arts organizations, colleges and universities, and the Make-A-Wish Foundation, which grants wishes to terminally ill children.

Organization design draws lessons from organizations such as Xerox, Walt Disney Company, and United Way and makes those lessons available to students and managers. As our opening example of Xerox shows, even large, successful organizations are vulnerable, lessons are not learned automatically, and organizations are only as strong as their decision makers. Research shows that many new companies don't survive past their fifth birthday, yet some organizations thrive for 50 or even 100 years. This chapter's BookMark examines some characteristics

## BOOKMARK

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## HAVE YOU READ THIS BOOK?

### ***Great by Choice: Uncertainty, Chaos, and Luck—Why Some Thrive Despite Them All***

By Jim Collins and Morten T. Hansen

Jim Collins, the author of the bestseller *Good to Great*, has spent many years looking at companies that perform better than their peers despite periods of instability, uncertainty, and crisis. For his new book *Great by Choice*, Collins teams with management professor Morten Hansen to describe the management actions that contribute to success.

#### THREE CHARACTERISTICS FOR LONG-TERM SUCCESS

*Great by Choice* first describes organizations, called 10Xers, that have outperformed their industry averages by at least 10 times over a period of at least 15 years and compares them to similar, less successful companies. The 10Xers include Southwest Airlines, Amgen, Intel, and Progressive Insurance. Managers of 10X companies all share three characteristics:

- **Fanatic Discipline.** The authors use the metaphor of the 20 Mile March, a paced, consistent journey toward goals that requires both the ambition to achieve and the self-control to hold back. 10X managers prefer consistent gains over shoot-for-the-moon risks. Andrew Grove at Intel, for example, abandoned the business of making memory chips only after thoroughly learning about the changing technology environment and business environment.
- **Empirical Creativity.** An entire chapter is devoted to the “fire bullets, then cannonballs” approach. Managers in 10X organizations tend to fire bullets to see what

will work and only then bring out the big guns. “After the cannonball hits,” they write, “you keep 20 Mile Marching to make the most of your big success.”

- **Productive Paranoia.** Herb Kelleher, founder and former CEO of Southwest Airlines, was always preparing for the next recession, even when none was in sight. 10X managers “remain productively paranoid in good times, recognizing that it’s what they do before the storm that matters most.” They are always building buffers and putting in place shock absorbers to deal with unexpected events.

#### CONTROL AND DISCIPLINE IN THE FACE OF CHANGE

Change is inevitable and innovation is necessary. The public and the media tend to admire and revere the brash risk-takers, but the organizations that survive over the long term, Collins and Hansen assert, are those that are specific, methodical, and consistent, which they refer to as SMaC. Sometimes, they say, it’s better to be “one fad behind.” Successful companies prepare rigorously for what they cannot predict, tend to not take excessive risks, and keep comfortable buffers in every area of their business. Managers in these organizations rely on evidence and tend to prefer consistent gains to big winners.

“What’s coming next?” the authors ask. “All we know is that no one knows. Yet some companies and leaders navigate this type of world exceptionally well. . . . They build great enterprises that can endure. We do not believe that chaos, uncertainty, and instability are good; companies, leaders, organizations, and societies do not thrive on chaos. But they can thrive in chaos.”

*Great by Choice*, by Jim Collins and Morten T. Hansen, is published by HarperBusiness.

that can help organizations thrive over the long term. Organizations are not static; they continuously adapt to shifts in the external environment. Today, many companies are facing the need to transform themselves into dramatically different organizations because of new challenges in the environment.

## Current Challenges

Research into hundreds of organizations provides the knowledge base to make Xerox and other organizations more effective. Challenges organizations face today are different from those of the past, and thus the concept of organizations and organization design is evolving. The world is changing more rapidly than ever before, and managers are responsible for positioning their organizations to adapt to new needs. Some specific challenges today's managers and organizations face are globalization, intense competition, rigorous scrutiny of ethical and green practices, the need for rapid response, and incorporating social business and big data.

**Globalization.** The cliché that the world is getting smaller is dramatically true for today's organizations. Markets, technologies, and organizations are becoming increasingly interconnected.<sup>6</sup> Today's successful organizations feel "at home" anywhere in the world. Managers who can help their companies develop a global perspective, such as Carlos Ghosn, the Brazilian-Lebanese-French CEO of Japanese automaker Nissan, or Medtronic CEO Omar Ishrak, a Bangladesh native who was educated in the United Kingdom and worked in the United States for nearly two decades, are in high demand.<sup>7</sup>

Companies can locate different parts of the organization wherever it makes the most business sense: top leadership in one country and technical brainpower and production in other locales. Alan Mulally, CEO of U.S.-based Ford Motor Company, spends about a third of his time on matters related to China. Ford was late getting into China and in 2013 had only about 3 percent of the Chinese auto market. Mulally said he planned to build five additional plants in that country, double the number of dealerships, bring 15 new vehicles to China, and launch the Lincoln brand there in 2014. "Clearly this is going to continue to be the highest rate growth for us," Mulally said.<sup>8</sup>

Related trends are *global outsourcing*, or contracting out some functions to organizations in other countries, and *strategic partnering* with foreign firms to gain a global advantage. Cross-border acquisitions and the development of effective business relationships in other countries are vital to many organizations' success. Large multinational corporations are actively searching for managers with strong international experience and the ability to move easily between cultures. Yet doing business on a global scale is not easy. Several garment factory fires in Bangladesh in 2012 and the collapse of another apparel plant in 2013 that killed more than 1,100 workers put the spotlight on poor working conditions in that country. The problem for retailers such as Walmart, H&M, Target, and other big companies that outsource is that similar poor working conditions exist in other low-wage countries such as Pakistan, Cambodia, Indonesia, and Vietnam that produce most of the world's clothing. Both European and American retailers have announced plans aimed at improving safety in overseas factories, but the challenge of monitoring contractors and subcontractors in low-wage countries is a massive one.<sup>9</sup> Apple, Amazon, and other Western companies have also run into problems using overseas contractors to manufacture other types of products.<sup>10</sup>