

Chapter 7

Organizational Structures

Learning Objectives

After completing this chapter, you'll be able to:

1. **Explain** how businesses organize for management.
2. **List** three levels of management and compare their responsibilities.
3. **Name** the four functions of management.
4. **Analyze** if a managerial position is for you.

Why It's Important

Understanding business organization and management is key to knowing how a company is run.

Key Words

management plan
organizational chart
line authority
centralized organization
decentralized organization
departmentalization
top-level managers
middle managers
operational managers

BusinessWeek Feature Story



A Fruitful Relationship

Tiny Plumtree and Giant P&G Both Benefit From Agreement.

The drops from a leaky pipe in the ceiling were heavy, and loud—enough to make everyone at the meeting in Plumtree Software Inc.'s tiny San Francisco conference room edgy. Especially Dan Gerbus.

The Procter & Gamble Co. executive

flew into San Francisco that morning to meet Plumtree's managers for the first time. He wondered if P&G, with an annual revenue of \$38 billion, was crazy to trust a multimillion-dollar software project to a company with only ten customers, and led by executives who just three years before had been hashing out a business plan in a Berkeley (Calif.) boarding house.

Source: Excerpted with permission from "A Fruitful Relationship," *BusinessWeek Online*, November 20, 2000.

An Extension Activity

Why do you think Procter & Gamble hired an outside firm to get it "wired" as opposed to keeping the project in-house?



To learn more about business organizations, visit the *Introduction to Business Web* site at www.introbus.glencoe.com, and click on *BusinessWeek* Feature Story, Chapter 7.

Organizing for Management

Suppose you've created your own comic book and want to start a comic book company. Do you want to produce comic books or market and distribute them as well? Do you also want to produce cartoons, video games, and action figures based on your comic books? Either way, you'll need some type of organization.

As a successful business owner, you'll want to accomplish your goals. Your business needs some form of organization that identifies who is responsible for which tasks. Usually a manager directs and coordinates the activities of the workers and deals with any problems that might arise.

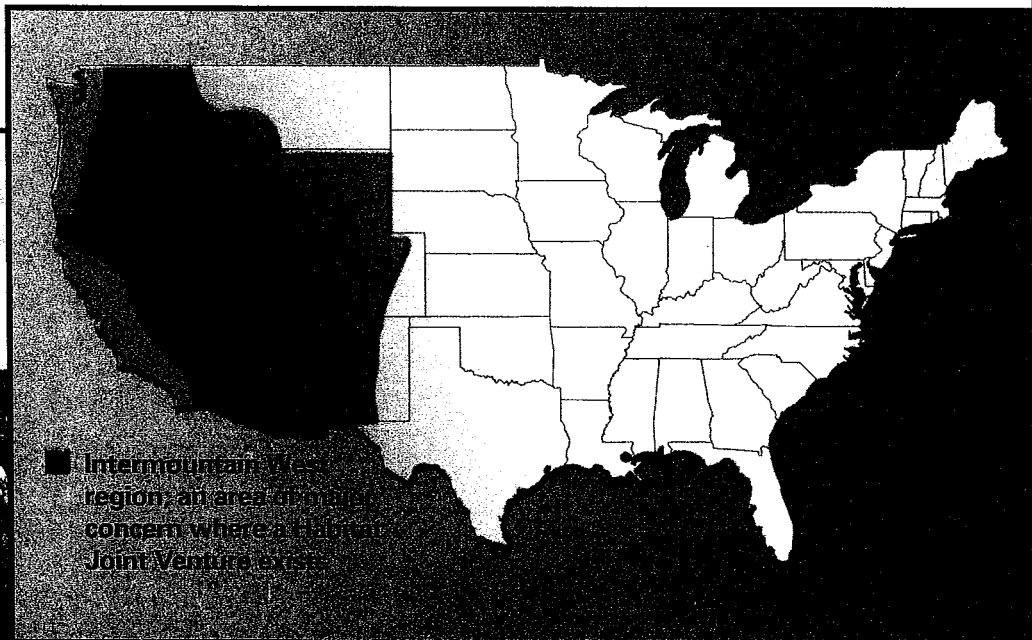
Managerial Structures

Any business that employs more than one person needs a management plan. A **management plan** divides a company into different departments run by different managers. Managers direct workers, coordinate activities, and solve problems that might occur. Figure 7.1 asks you to examine how a management plan helps nature. Companies use an **organizational chart** to show how the business is structured

WATERFOWL MANAGEMENT PLAN

➔ Fifty-three percent of the original 221 million wetland acres found in the United States has been destroyed. The waterfowl depend upon the wetlands. The North American Waterfowl Management Plan is a joint venture to preserve migratory birds and their habitats.

How might this management plan save the habitat?



and who is in charge of whom. In some companies, one person is in charge, and in others, several people might be in charge.

One way to organize management is called **line authority**. The managers at the top of the line are in charge of those beneath them, and so on. **Centralized organization** puts authority in one place, with top management.

Pretend you'd like to run all aspects of your comic book company yourself but it's too much for one person. **Decentralized organization** gives authority to a number of different managers to run their own departments. For example, you might have one person run the production department and another person in charge of marketing.

Formal Structure

Formal structures are usually departmentalized. **Departmentalization** divides responsibility among specific units, or departments. Departments can be organized by what they do, what they make, or by region.

Your comic book's distribution department, for example, is responsible for shipping your product. If your company also produces cartoons and advertisements, you might have a separate department for each. Suppose your company markets comic books nationwide. You'll need managers to run offices in different parts of the country. The Coca-Cola Company markets Coca-Cola® not only in the country but also throughout the world. In each country they have a regional manager who knows his or her market best.

Informal Structure

Smaller businesses can be run more informally. If a business doesn't need a big marketing or distribution network, it doesn't need a lot of managers. The employees can be more flexible and share the duties.

Suppose you decide to publish comic books over the Internet with a couple of partners. One partner is better at computer graphics and the other is better at writing. You can work on projects alone or collaborate on each other's projects. Each week you meet with your partners to plan work on your projects. The informal structure works better for you than having one person in charge.



Fast Review

1. How does a centralized organization differ from a decentralized organization?
2. Give an example of departmentalization.

Real-World Application

part 1 of 4



THE UNMANAGEMENT STYLE OF GORE

W. L. Gore & Associates, Inc., makers of GORE-TEX®, breaks all the corporate rules with its organizational structure. Bill and Vieve Gore created the lattice organization.

How do you suppose a lattice organization is run?

continued on p. 103

Levels of Management

Every aspect of business has to be managed from setting goals to meeting them. Your long-range goal is not only to produce comic books. You also want to produce cartoons, video games, and action figures. You'll need managers to run each division and oversee the day-to-day operations of each division. Most businesses have three levels of managers: top-level managers, middle managers, and operational managers.

Top-level managers are responsible for setting goals and planning for the future. They have titles like president, vice president, and chief executive officer (CEO). Top management usually consists of a small group of people, or even one person. Lucasfilm Ltd., which produced the *Star Wars* movies, has several different divisions. However, George Lucas alone runs the company.

Middle managers carry out the decisions of top management. They include plant managers, regional managers, and department heads. They're responsible for planning and controlling an operation. The person in charge of development for your video game department is a middle manager.

Operational managers are responsible for the daily operations of the business. Supervisors, office managers, and crew leaders are types of operational managers. Their duties include overseeing workers and meeting

Business Building Blocks

Developing Teamwork

In business, collaboration is key. Working in a team requires flexibility, creativity, good communication, and shared goals. In fact, those characteristics also describe *improvisation*—to arrange something offhand. To accomplish a goal in a company, people must work together.

Practice

1. You and three others are “actors” in an improvisational skit.
2. You can only communicate by asking questions. You and other actors are trying to decide whether or not to check into a sleazy hotel for your vacation.
3. Two actors will communicate at a

Communication

time. If one makes a statement rather than asking questions, he or she must step aside and the next person takes over immediately.

4. After five minutes, analyze how you and your fellow actors developed communication skills.

Tips on “Improving” Your Teamwork

- Working as a team is better than working separately.
- Listen to each other as you brainstorm for solutions.
- Engage in problem solving while creating and offering solutions within constraints.



deadlines. The supervisor of your accounting department is an operational manager.



Fast Review

1. What are three levels of management?
2. Which of the three levels is most involved in the day-to-day supervision of employees?

Managerial Functions

To meet the goals of your company you need good management. A good manager doesn't just pass on orders. A good manager has four different functions: planning, organizing, leading, and controlling.

Some decisions are routine, such as setting deadlines. Some are risky, such as marketing a new product. Sometimes long-term goals have to be changed because of short-term problems. Managers need to make decisions at all four levels.

Planning

Good planning requires setting realistic goals. Suppose your comic books are a big success and you want to branch off into cartoons, video games, and toys. You can't expect to produce them overnight and have them sell well. First, you need to see if there's a big enough market for them. You have to find out what kind of technology to use, and how long it will take to produce them.

Long-range planning involves top-level management deciding how the company should perform. As part of the planning process, management must answer the following key questions:

- What must be done?
- Who will do it?
- How will the work be grouped?
- Who supervises whom?
- Who makes decisions about the work to be done?

These questions are applied and answered when you get together with your management team. The team decides your plan to market a variety of products is too ambitious. You decide on a more realistic plan of only producing a cartoon show. If the show is a big success, then you can consider producing video games and action figures.

Organizing

To organize a business plan you need to assign managers different tasks and coordinate their activities. One manager is in charge of video production and one is in charge of marketing. Another manager is in charge

Real-World Application

part 2 of 4



THE UNMANAGEMENT STYLE OF GORE

The Gore corporate culture has no chain of command, no pre-determined channels of communication. Instead, the staff communicates directly with each other. There is no hierarchy. **What are the benefits of such a management style?**

continued on p. 105

of the budget. Each manager needs to organize his or her department and know what the other managers are doing. Your production manager has to decide whether to set up a small studio or hire an existing one overseas. Your marketing director has to do some research to decide whether your cartoons will sell well in the United States or Japan. Both managers need to know how much money they have in the budget to carry out their tasks.

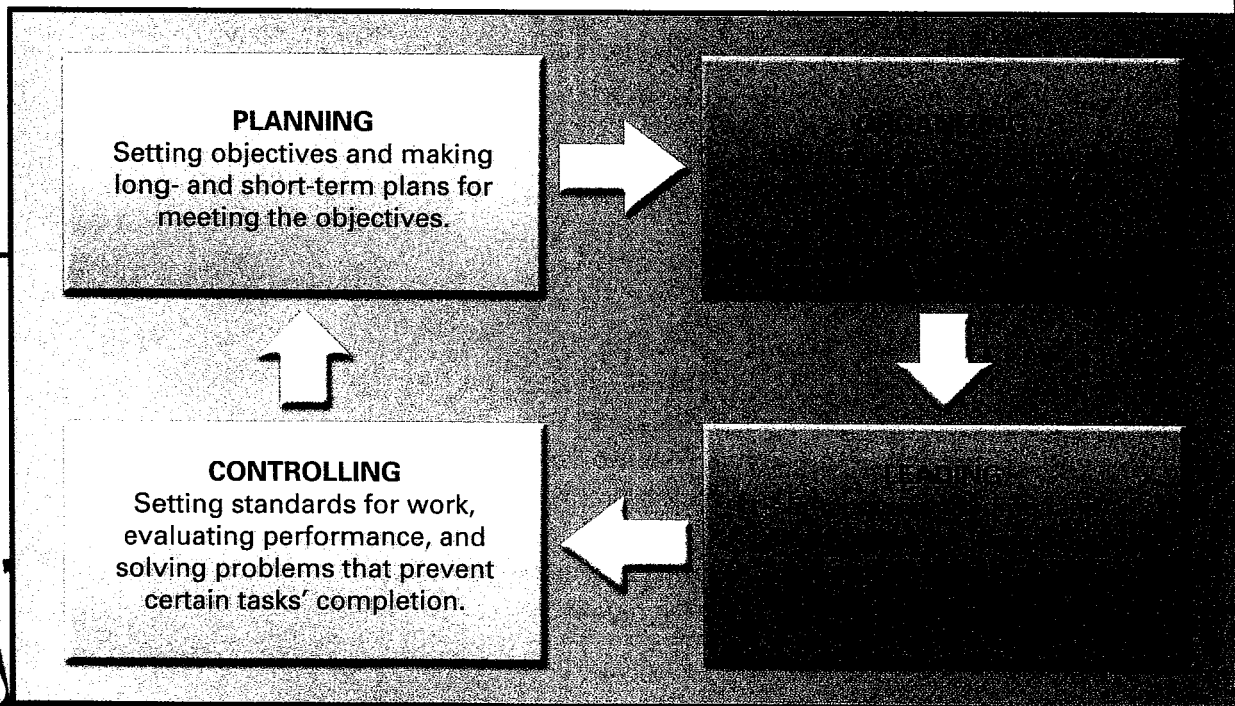
You also need to determine who makes decisions and who answers to whom. Can some managers make decisions for themselves or do they have to report to you? Figure 7.2 demonstrates the managerial functions in a graphic organizer.

Leading

Good management also requires good leadership. There's more to leading than just giving orders. You have to create a vision of your company to inspire your employees. You need to set standards, such as deadlines and sales quotas, so your managers know their goals. You need to communicate with them to provide guidance and resolve conflicts. Some employees might need training. Others might be self-motivated and work better on their own.

MANAGEMENT FUNCTIONS

➡ Managers carry out four different functions.
Which function involves coordinating resources?



You especially want to encourage your employees. Most companies offer incentives such as pay raises and promotions. Some companies, like Intel and Wal-Mart, offer stock options and profit sharing to their employees so they feel like they have a stake in the company. The primary objective of a good manager is to help each person in the company work to his or her potential.

Controlling

Controlling means keeping the company on track and making sure all goals are met. You have to keep track of the budget, the schedule, and the quality of the product. You also have to monitor your employees and review their performance. Suppose your first cartoon comes in ahead of schedule and it looks great. You might want to reward your production manager with a pay raise or a day off.

On the other hand, sometimes things don't go according to plan. Your first cartoon just came in over-budget and it looks awful. You need to find out what went wrong and fix it. You might have to fire your production manager or find a new studio.

Controlling also involves monitoring customer satisfaction. Your marketing manager can measure the success of your cartoon by studying sales charts and ratings. You might find out your show did well on television but did poorly on video. If your show was more popular with adults than children you might want to come up with a new marketing plan.

Fast Review

1. What are the four functions of management?
2. What is a manager's objective in leading?

Is Being a Manager for You?

Most managers begin their career as a company employee and are promoted after they have gained experience and have shown certain qualities.

- *Ability to perform varied activities.* Managers usually have many tasks to perform at one time. Managers have to plan their time and decide which tasks are the most important at any one time.
- *Ability to work under pressure.* A manager often has to solve many small problems in a fairly short time. For example, a supervisor may have to organize next week's work schedule, solve a production problem, and train two new employees—all in the same workday. Also included might be attending one meeting, writing seven letters, and skimming four industry periodicals.

Real-World Application

part 3 of 4



THE UNMANAGEMENT STYLE OF GORE

Gore hires associates (not employees) to work on general projects. Within the guidance of sponsors (not bosses) a team is formed.

What are some challenges a Gore team might encounter?

continued on p. 107

Writing for Business

Portfolio
Activity

Assess and Reorganize

This activity gives you the chance to add to your portfolio. Communicate, interview, research, and write your way into a story. Choose one imaginary path, Hired Consultant or Personnel Director. Follow your path's steps to complete your own story.

pick a path

Hired Consultant

The Setting. The vice president of operations at a tractor-manufacturing company has called you, a consultant. She needs your help in reorganizing the company's managerial positions.

Rising Action. You've never consulted on this type of job before, but you need the money so you cannot turn it down.

- Step 1.** Call or write to the personnel department of a large corporation. Ask for information about the company's organizational structure.
- Step 2.** Create a graphic illustration of how the different managerial levels relate.
- Step 3.** Using this graphic as a model, write brief job descriptions for each managerial position as it relates specifically to the tractor-manufacturing company.

Personnel Director

The Setting. You're the personnel director at a tractor-manufacturing corporation. The company wants to open a manufacturing plant in northern Mexico.

Rising Action. You know the company needs to address issues about global growth. You need to consider the company's organization, wages, and working conditions as they relate to Mexico.

- Step 1.** Read recent articles about the globalization of American corporations.
- Step 2.** Prepare a memo to your boss, the vice president of operations. The memo outlines your recommendations about offering fair wages and working conditions abroad.
- Step 3.** Lastly, explain in the memo how your recommendations benefit the corporation as well as its employees.

Conclusion

Now it's time to reflect on your choice. Take a few minutes to write a note to your teacher about the path. Briefly explain why you chose it and what you learned from researching and writing it. Attach this note to your assignment.

- *Effective communication.* Every manager has to communicate well. Communicating might be done on the telephone, by fax, or e-mail, in individual or group meetings, or in a written report or a letter. Listening is also an important part of communication. Most of a manager's day is spent interacting with other people.
- *Interpersonal skills.* Managers work with people and need human relations skills, or skills in dealing with people. For example, a manager may be asked to resolve conflicts among employees.
- *Ability to gather and use information.* Managers must be aware of the events and forces in the global market that affect their business. For example, some managers read local and national newspapers daily. They may also use online services to access international news relating to their company's various markets or products.

If you were offered a job with management responsibilities, would you take it? To help you decide, consider some of the advantages and disadvantages.

Advantages

Managers usually earn more money than employees in non-management jobs. People become managers because they're leaders, and good leaders are respected. So, being a manager has prestige. Because managers are leaders, they have more influence than other employees on how the company is run. That is, managers have more authority than other employees do in planning, organizing, directing, controlling, and evaluating company resources. Managers have varied duties and make decisions about many kinds of things. Managers also have greater control over their time and how they'll spend it.

Disadvantages

Managers get the blame when things go wrong, even if another employee caused the problem. Managers are also often targets for criticism. When managers do make mistakes, they can be more costly than other employees' mistakes because their decisions affect many workers. Managers get a lot of pressure to do things right the first time. Finally, some managers feel their relationship with lower-level employees is different than their relationship with fellow managers. Employees are often careful of what they say or do when their manager is around for fear of jeopardizing their jobs.

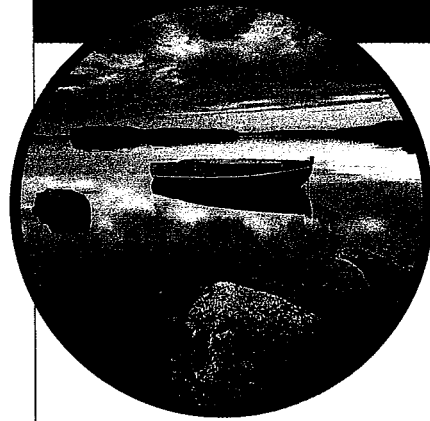


Fast Review

1. What are five qualities or skills a manager should have?
2. What are the advantages and disadvantages of being a manager?

Real-World Application

part 4 of 4



THE UNMANAGEMENT STYLE OF GORE

At Gore, everyone will try to be fair, committed, and encourage freedom. Associates are to consult with one another before taking action that might be "below the waterline" and cause serious damage to the company.

What does this saying mean?

Chapter 7 Review

Summary

1. Businesses may be organized with authority focused in one place (centralized) or with authority in a number of units (decentralized).

2. LEVEL OF MANAGEMENT	RESPONSIBILITIES
Top-Level Manager	Set goals and plan for the future.
Middle Manager	Carry out decisions of top management. Planning and controlling an operation.
Operational Manager	Oversee daily operations of business. Manage staff. Meet deadlines.

3. Managers plan, organize, lead, and control.
4. Successful managers are able to carry out varied tasks, perform under pressure, communicate effectively, relate to people, and grasp and use information. Managers have prestige, influence, and power; however, they usually experience a lot of pressure too.

Using Business Key Words

When discussing management and how businesses are organized, it's helpful to know the following terms. Match each term with its definition.

- **centralized organization**
 - **middle managers**
 - **decentralized organization**
 - **management plan**
 - **operational managers**
 - **organizational chart**
 - **line authority**
 - **departmentalization**
 - **top-level managers**
1. Managers who carry out the decisions of top management.
 2. A business plan that divides a company into different departments run by different managers.
 3. Authority lies in one place.
 4. Authority lies with several different managers.
 5. Supervisors, office managers, and crew leaders are examples of this type of manager.
 6. Plant managers, regional managers, and department heads are examples of this type of manager.
 7. A way of organization that subdivides responsibilities by specific units.
 8. A chart that shows how a business is structured and who is in charge of whom.
 9. An organizational structure in which managers at the top of the line are in charge of those beneath them.

Chapter 7 Review

Review What You Learned

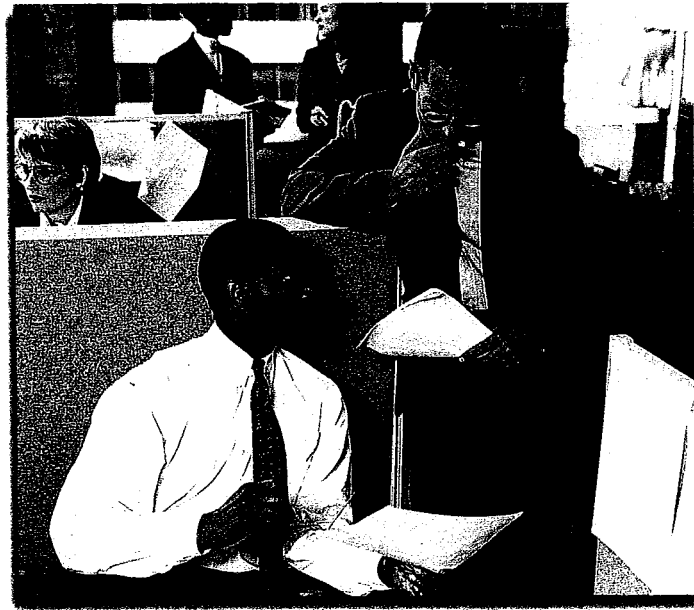
10. What is line authority, and how does it look on an organizational chart?
11. Who has the decision-making authority in a decentralized organization?
12. Describe the three different ways in which departments are organized.
13. What are the primary responsibilities of top-level managers?
14. What is the difference between middle managers and operational managers?
15. Name the four managerial functions.
16. What does good planning require?
17. Describe the function of leading and how it affects a manager's job.
24. Amazon.com and Toys “Я” Us decided to work together to sell toys over the Internet. What decisions would executives from each company have to consider in order to successfully complete this alliance?
25. Business organizations that are run by women are more likely to:
 - a. Grow quickly.
 - b. Take financial risks.
 - c. Place less emphasis on who is in charge.
 - d. Or all of the above.

Understanding Business Concepts

18. What are some of the differences between a business that has a formal organization and one that is informally organized?
19. Why do managers at all levels need to communicate well?
20. Describe the management function of organizing.
21. What is the primary objective of a good manager?

Critical Thinking

22. Would you choose to work in a formally or informally structured organization? Explain why.
23. Describe the ideal manager that you would like to work for someday.



Viewing and Representing

Examining the Image. Team up with a partner. What details do you see in this photograph? What people and objects are shown? Decide whether the organization shown is centralized or decentralized. Explain your reason. Do you feel you would enjoy working in this organization? Why?

Chapter 7 Review

Building Academic Skills

LANGUAGE ARTS

Brainstorming

Work with a partner and imagine that one of you is the manager and the other is an employee. Choose two business situations that a manager must be able to deal with. Each of you should take the role of the manager in one of the situations you chose. After you have acted out the situation, discuss the skills you used. Draw up a list of the management responsibilities and skills that you and your partner think are important for handling the situations you examined.

COMPUTER TECHNOLOGY

Creating a Graphic

Using computer software, create an organizational chart of the administration of your school. Explain what type of organization it has.

HISTORY

Decision Making

Top-level managers make major decisions and establish company objectives. For example, top-level managers at Coca-Cola® decided several years ago to introduce a “new Coke” with a slightly different recipe. It was a disaster. Consumers didn’t like it. So top management decided to bring back the original, calling it “Coca-Cola® Classic.” Research a similar top-level management decision. In a short paragraph, summarize the management decision and its effect(s) on the company.

MATH

Exploring Math Skills

Working in groups of three or four, create a list of all the math skills that are needed by managers at each level. Give a detailed explanation of how each skill would be used on the job. As a class, combine the lists.

Linking School to Home

Family Members’ Workplace. Ask a family member how his or her workplace is organized. How is the management structured? Create a poster summarizing your findings.

Linking School to Work

Functions of Management. Interview a manager from a local business to find out how he or she uses leadership skills to manage people

and resources on the job. Use the following questions as a guide when you interview the manager:

- What must be done?
- Who will do it?
- How will the work be grouped?
- Who supervises whom?
- Who makes decisions about the work to be done?

Also, ask the manager what percentage of his or her time is spent on each of the four functions of management (i.e., planning, organizing, leading, and controlling). Then, using the information you have obtained, write a 250-word report.

Chapter 7 Review

E-Homework

Applying Technology

Pie Chart. Using the information you obtained from the Linking School to Work activity, create a pie chart demonstrating the percentage breakdown of the four management functions for the manager you interviewed. Title the chart and include the company name, product, and manager's title. Also, carefully label the sections of the chart. Write a short caption for the chart explaining the percentage breakdown. Print out the finished product.

Organization Chart. Work in small groups. Imagine you start a greeting card company. Decide what functions your team members will perform, taking into account the talents and interests of individuals. Will your company be structured formally or informally? Make a chart using presentation software to show how you organized your company. Present your chart to the class.

Connecting Academics

Math. You're a delivery manager at Blue Bag Bakery, a wholesale bakery. The bakery employs two drivers and owns two trucks. Each truck can deliver up to 175 crates of bread a day. The bakery usually has orders for 340 crates a day from local supermarkets, schools, and hospitals. A new supermarket is opening soon and you expect orders to increase 225 percent. How many trucks and drivers will you need to cover your new deliveries?

Math. Fran, merchandise manager for Blue Bag, is planning her department's yearly budget. Fran is in charge of three employees, each earning \$350 a week. Fran earns \$500 a week. The business pays social security taxes of 8.15 percent on employee earnings for social security taxes.

How much money does Fran need to enter in her department's budget to cover salaries and taxes for the year?

BusinessWeek

Analyzing the Feature Story



You read the first part of "A Fruitful Relationship" at the beginning of this chapter. Below are a few questions for you to answer about Plumtree and Proctor & Gamble's business organizations. You'll

find the answers to these questions when you're reading the entire article. First, here are the questions:

26. How do Plumtree and Proctor & Gamble's business organizations differ?
27. What management skills did Gerbus of P & G use to make the alliance with Plumtree a success?

CREATIVE JOURNAL ACTIVITY

What kind of organization would you like to work in? Should it have a formal or informal structure? Write a short description of the ideal business environment for you.

BUSINESS Online



The Full Story

To learn more about Plumtree and Proctor & Gamble's business organizations, visit the *Introduction to Business Web* site at www.introbus.glencoe.com, and click on *BusinessWeek Feature Story, Chapter 7*.