

12

Designing

Learning Objectives

- Understand the ubiquity of designing
- Distinguish between formal and informal aspects of organization designs
- Understand the key organization design concepts, including the following:
 - Division of work and specialization of workers
 - Authority and responsibility relationships
 - Departmentalization
 - Span of control
 - Coordination, including important mechanisms of coordination
- Understand the designing of interorganizational relationships (IORs)
- Understand Mintzberg's five interrelated parts of organizations

Discussion Questions

1. What are the major characteristics of Weber's ideal bureaucracy as an organization form?

The major characteristics identified by Weber are 1) a clear division of labor, 2) positions arranged in a hierarchy, 3) formal rules and regulations, 4) impersonal relationships, and 5) employment based on technical competence. Weber considered the bureaucratic model to be an “ideal” form based on his observations of real and successful organizations. This view of organizations has been criticized for a number of reasons, including 1) its incomplete assumptions about human motivation; 2) that it generally ignores organizational conflict; 3) that little consideration is given to human beings as complex, information-processing systems; 4) that little attention is given to the role of cognition in task identification and decision making; and 5) that little attention is given to the phenomenon of program elaboration.

2. Discuss the concept of departmentalization and apply it to a hospital, a nursing facility, and a small freestanding ambulatory center.

One of the classical principles of organization is departmentalization or division of work along functional lines. In a hospital, for example, departmentalization consists of a number of departments or units performing specialized (functional) work. Support and ancillary services departments include nursing, pharmacy, radiology, dietary, and housekeeping. Clinical departments include medicine, surgery, and pediatrics. Departmentalization also occurs in a nursing facility, a freestanding ambulatory center, or any other HSO/HS. The difference from one organization or system to the next is that they may have varying numbers of departments, based on their relative complexity and the work performed in them.

Organizations use any of several bases for grouping workers (departmentalizing the organization): knowledge and skills, work process and function, time, output, client, or place. One phenomenon in HSOs/HSs is the tendency to base departmentalization on clients or patients. Geriatric and women's health programs, or comprehensive cardiac care programs marketed specifically to corporate executives, are examples. This basis for departmentalization is related to a need to more clearly market services in a competitive environment.

3. Why is coordination so important for HSOs/HSs, and what are the mechanisms of coordination?

Coordination in HSOs/HSs is activity intended to achieve unity and harmony of effort in pursuit of missions and shared organizational objectives within HSOs or between the organizations participating in HSs. If the organization or system is to be both effective and efficient, coordination is essential.

Numerous mechanisms exist to foster coordination in organizations and systems, creating a “menu” from which managers can select as they work to ensure coordination. Included are the administrative system; committees; customs; direct supervision; feedback; hierarchy; integrators; matrix designs; mutual adjustment; planning; programming; project management through task forces or teams; standardization of work processes, output, or workers' skills; quality improvement teams; and voluntary action. Managers in HSOs/HSs use various combinations of these mechanisms to achieve coordination; usually several are used concurrently.

4. Discuss the relationships between span of control, delegation, and centralization–decentralization.

Span of control refers to the number of subordinates one manager directly supervises. Because it is not possible for one manager (e.g., the chief executive officer) to supervise the entire workforce, it is necessary to *delegate* part of that responsibility to others. Although closely related to delegation, *decentralization* is a broader concept. It has become a philosophy of organization and management. It requires considerably more than simply delegating authority or respon-

sibility to subordinates. Decentralization of authority and decision making is a fundamental phase of delegation. When authority is not delegated, the organization is centralized.

5. Discuss the characteristics of a matrix organization and how it differs from the classic functionally departmentalized organization.

The classic functionally departmentalized organization has a vertical (top-to-bottom) orientation. When “teams” are built around certain projects within the framework of the functionally departmentalized organization, the result is a matrix organization. The matrix design provides a horizontal (lateral) dimension to the traditional vertical orientation of the functionally departmentalized organization (see Figure 12.3).

The matrix design offers greater flexibility and responsiveness to innovative ideas. However, these advantages are offset somewhat by such problems as role ambiguity and occasionally unclear lines of authority and reporting relationships for members of the team, who may be working on a certain project team but who are also assigned to a functional department, and by the fact that the project manager quite often must adopt a new approach to management. Managers operating within the matrix structure must recognize that management becomes a dynamic activity in which major changes are common. (The instructor should include in this discussion the advantages of matrix organization noted in the text.)

6. Is decentralization better than centralization of authority and decision making?

Decentralization is not intrinsically better than centralization. In general, however, decentralization is much more compatible with the contemporary behavioral aspects of management, and it provides many advantages. In the discussion of this question, the instructor can use the following list (not included in the chapter text) of advantages of decentralization suggested by Drucker:¹

- Speed and lack of confusion in decision-making
- Absence of conflict between the top management and the divisions
- A sense of fairness in dealing with executives, confidence that a job well done would be appreciated, and a lack of politics in the organization
- Informality and democracy in management
- Absence of a gap between the few top managers and the many subordinate managers in the organization
- The availability of a large reservoir of promotable managerial personnel
- Ready visibility of weak management through results of semi-independent and often competitive divisions
- Absence of “edict management” and the presence of thorough information and consideration of central management decisions

In contrast, centralization 1) results in uniformity of policy, 2) enables others to use the skills and services of a centralized staff, and 3) fosters better control of the organization’s activities.

The operational question faced by managers in deciding what amount of centralization or decentralization is desirable can be answered only by saying that it depends on the individual situation. In this discussion the instructor may find the following seven questions (not in the chapter text) that Newman, Summer, and Warren suggest should be considered in determining the degree of decentralization desirable in a particular situation:²

- Who knows the facts on which the decision will be based, or who can get them together most readily?
- Who has the capacity to make sound decisions?

- Must speedy, on-the-spot decisions be made to meet local conditions?
- Must the local activity be carefully coordinated with other activities?
- How significant is the decision?
- How busy are the executives who might be assigned planning tasks?
- Will initiative and morale be significantly improved by decentralization?

7. Compare Mintzberg's five basic organizational configurations.

According to Henry Mintzberg,³ organizations from the simplest enterprise to large, complex academic medical centers have five interrelated parts: the strategic apex, the operating core, the middle line, the technostructure, and the support staff.

- The *strategic apex* comprises those people who set the strategic direction of an organization.
- The *operating core* comprises those who do the basic work of the organization.
- The *middle line* comprises managers located between the executives in the strategic apex and people in the operating core.
- The *technostructure* consists of people who help plan and control the basic work of the organization.
- *Support staff* provide indirect services.

Mintzberg diagrams the five parts of organizations as shown in Figure 12.7. Further discussion of these organizational parts can be found in the text.

In Mintzberg's view, the structures of almost all organizations can be included in one of five basic designs based on various configurations of the strategic apex, operating core, middle line, technostructure, and support staff. He labels these design alternatives as the simple structure, the machine bureaucracy, the professional bureaucracy, the divisionalized form, and the adhocracy. These designs are illustrated in Figure 12.8 and discussed in the text. Briefly, they are as follows:

- The *simple structure* has a strategic apex that may be only one person and an operating core consisting of a group of workers. The middle line, technostructure, and support staff components are small or missing.
- The *machine bureaucracy* design is characterized by a large, well-developed technostructure and support staff. Major decisions are made in the strategic apex, which features rigid patterns of authority. Spans of control are narrow, decision making is centralized, and the organization is functionally departmentalized.
- The *professional bureaucracy* is characterized by an operating core composed primarily of professionals; this operating core is the heart of the organization, and decision making is decentralized to it. The technostructure is underdeveloped because work is done largely by professionals who do not need—indeed, do not permit—others to do their work.
- The *divisionalized form* has independent units joined by a shared administrative overlay. This form is characterized by a large, well-developed middle line because division managers are responsible for their divisions and may be given considerable decision-making latitude.
- The *adhocracy* is difficult to describe because two forms of this configuration exist: the operating adhocracy and the administrative adhocracy. The adhocracy often takes the form of a matrix structure or project teams, with emphasis on activities in both the operating core and the technostructure. Power in adhocracies shifts between professionals and technical experts. This design can be a free-form structure with frequently changing job descriptions and a flexible concept of authority.

8. *Briefly distinguish between market transactions, involuntary interorganizational relationships, and strategic alliances as categories of mechanisms through which HSOs/HSs link with interdependent entities.*

The discussion should begin by emphasizing that, because of the different interdependencies between an HSO/HS and other entities, different types of interorganizational relationships (IORs) must be established. As is generally true for organizations, the most prevalent type of IOR in which HSOs/HSs are involved is the *market transactions* between them and other entities. Market transactions are used to secure resources from suppliers and to ensure markets for outputs.

A second type of IOR occurs because HSO/HSs must participate in linkages with certain entities such as federal or state regulatory agencies, fiscal intermediaries, bond rating services, utilization management companies, and unions with which they have collective bargaining agreements. Because the HSO/HS has no choice but to participate in these IORs, they can be labeled *involuntary IORs*.

The third type of IORs in which HSOs/HSs engage—the type through which HSOs establish HSs, as well as accomplish other purposes—are voluntary. These IORs occur when HSOs/HSs voluntarily enter into a variety of linkages with other entities that are different from their market transactions. Voluntary IORs are established between or among entities for purposes of mutual benefit or gain and are used by HSOs/HSs to accomplish purposes such as improving their competitive positions by better meeting consumer expectations for delivery and coordination of care. Voluntary IORs, ranging from the simplest to the most complex and extensive linkages, are in general referred to as alliances or *strategic alliances (SAs)*. SAs are established through a variety of mechanisms including but not limited to the formation of HSs. By definition, all HSs are SAs, although HSs range from simple to very complex; not all SAs, however, are HSs.

9. *Discuss strategic alliances in terms of who participates in them. Discuss strategic alliances in terms of the purposes for which they are formed.*

Participation

This discussion can be organized around the following groups of participants in SAs:

- Individuals, such as groups of physicians forming an independent practice association
- Physicians and HSOs/HSs, such as alliances in which physicians, as individuals or groups, are employed by or contract with HSOs/HSs, or their practices are owned by HSOs/HSs
- Two or more HSOs, as seen when HSOs that are alike form a horizontally integrated HS or when dissimilar HSOs form a vertically integrated HS

Purposes

SAs can be usefully considered in terms of their purposes, which include the following:

- Cost reduction, revenue enhancement, or both
- Increased capacity to innovate and adapt to environmental threats
- Increased organizational learning that can accompany participation in an alliance
- Opportunities to improve quality

- Increased likelihood that participants might stabilize themselves, improve their competitive positions in uncertain environments, or both
- More than one of these purposes

Case Study 1

Is the Matrix the Problem or the Solution?

This case provides a good opportunity to see that changes in organizational structure are more than changes on paper. Such structural changes involve people and their interrelationships.

1. Why do you think the PSO members reacted as they did?

The professional staff organization (PSO) members reacted negatively 1) because these physicians were not consulted earlier about the change and 2) because, clearly, the application of a matrix design (e.g., the one shown in Figure 12.3) to the nursing units will change interrelationships on the units—a change they may not like.

2. Is there anything inherently wrong with the matrix design? Is it inappropriate for psychiatric hospitals?

As with any organization design, the matrix design may or may not be appropriate in a given situation. The circumstances of each situation dictate appropriateness. As shown in Figure 12.3, the matrix design can be entirely appropriate for psychiatric hospitals, but all key participants must agree (or at least be neutral at the outset) that the design is appropriate if it is to serve its function.

3. What should the president and vice president for nursing do now?

The president should go back to the beginning by having the vice president work with all stakeholders (starting with the problem on the units) to develop an acceptable and workable organization design. It may well be that, when fully understood, the matrix design will be acceptable. At a minimum, it should be possible to experiment on a small number of nursing units with the matrix design.

Case Study 2

Trouble in the Copy Center

1. What do you think about Arnold's decisions and behavior?

One of the major problems in Arnold's decisions and behavior is that she has made changes without consulting the people most affected—particularly the center's supervisor. It appears that Arnold makes decisions without thinking them through carefully and without involving the people affected. This could be attributed to her inexperience. Unless she learns to work more effectively with people, she will have problems in her career.

2. Why did the copy center's employees react as they did?

The copy center employees reacted as they did because they were not consulted about the change. Drawing on the text material describing the informal organization, it should be pointed out in the discussion that the work group members perceived Arnold's action as a threat to their group's stability and the ability of members to fulfill their needs through the group. Note the characteristics of cohesiveness: similar age, socializing after working hours, and discussion of personal matters. Their behavior and reaction were understandable.

3. *Why did the center's employees not help the receptionist?*

Unless the role and function of the receptionist were clearly presented to the other employees, it certainly would not be likely for them to extend help. Furthermore, the receptionist was a symbolic representation of the forced change directed by Arnold. Ostracism was a way for the center employees to send the message, "We don't accept the change."

4. *If you were the vice president for administration, what would you do?*

The vice president for administration has a clear obligation to provide help and counsel for Arnold. It is apparent that the vice president is crucial to Arnold's development at this point. However, the vice president has a responsibility to see that unnecessary organizational conflict does not occur. It can be presumed that the center's employees were doing their jobs before the change as expected and that they were not doing so after the change. The informal organization in this instance strengthened the formal organization before the change occurred. The vice president, recognizing this strength, should seek to regain the benefits, probably by reverting to the old schedule. To do so, the vice president should work through the informal leader. Arnold will lose face; however, if handled properly and sensitively, her mistake can be turned into a positive and valuable learning experience for her.

Case Study 3

"I Cannot Do It All!"

1. *Is this an organization problem? What factors might be contributing?*

This may well be an organization problem, at least in the sense that Harold Brice is running the risk of being crushed by the weight of having to make too many decisions himself—a sure sign of organization design flaws. However, there may be elements of weakness in the managerial styles of his subordinates, in the style of his predecessor, or in both that have carried over. Brice's subordinates may simply be continuing a style preferred by the previous president of Healthcare, Inc. Brice must first sort out whether the problem is design or how his subordinates behave. It may be that the problem is not so much one of design as it is making the design work properly. This means that he should proceed cautiously, especially in terms of making design changes.

2. *In terms of organization design, what can Brice do?*

At the very least, Brice needs to clarify the authority (to make decisions) and responsibility (for making decisions) that he wants to delegate to his subordinates. Healthcare, Inc., is a small organization and he may wish to continue the informal pattern that has emerged and have the managers discuss among themselves the decisions that face them. However, from an organizational standpoint he must make it clear that the subordinates have areas of responsibility, and they are responsible for making decisions within them. Otherwise, Brice will not be able to turn his attention to strategic plans for Healthcare, Inc.

Case Study 4

Somebody Has to Be Let Go

This case can be used to stimulate discussion of organization design concerns in situations of rapid growth and in situations in which there is a need to consolidate or downsize.

1. *If you were Ken, where would you start? How would you proceed?*

Ken, unfortunately, has been given a difficult and unpleasant task that, like many such tasks, stems from mistakes made by others. Retrenchment and downsizing are difficult tasks with

human costs, but sometimes they are necessary for an organization's survival. Assuming that his assignment is nonnegotiable, Ken must proceed to make the cuts in staff that the president has ordered, and he must do so quickly to meet his deadline. His objectives in carrying out this order should include treating the affected employees as fairly as possible, minimizing the negative impact on the organization and its culture, and maximizing the prospects for changes that will prevent similar problems in the future. Once Ken establishes clear objectives for the task he has been given, he can proceed to develop and implement his plan of action. His plan must cover two immediate and interrelated decisions: 1) he must decide where in the organization to make the cuts, and 2) he must decide whom to release in the affected parts of the organization.

2. How can you rationally make these choices?

Ken's first decision about where to make the reductions must be guided by his best possible assessment of the organization's future needs. For example, if the training staff is difficult to replace and all of them will likely be needed soon, it would be foolish to release any. In contrast, if the projection is that some of them will remain idle for a long period, they would make appropriate candidates for release. Similarly, decisions about account executives must be based on the projected need for them. Given the time constraint, Ken's assessment must rely on the opinions of key members of the organization about future needs.

Once he decides which area(s) of the organization to reduce, Ken must make specific decisions about whom to release. Evaluations of training staff members should be used as a basis for deciding which, if any, trainers should be released. Not using these evaluations will undermine their future usefulness to the organization and send the message that performance does not really count in the organization. For worker categories in which no performance evaluations exist, seniority is a reasonable basis for deciding whom to release.

3. What kind of organization design does this company need?

This company, more than anything else, needs a design that maximizes flexibility. For example, it might be very useful to move to a staffing pattern in which people are able to serve the account executive (sales) role *and* the training role. Although it might be difficult to find such people, the search for them and the necessary investment in their training could pay huge dividends in the future. Using Mintzberg's typology, this organization, which exists now as a "simple structure," should move toward an "operating adhocracy" design—one in which workforce flexibility is a primary objective.

Case Study 5

Is Outsourcing Part of Designing?

1. Identify the design issues in this situation.

Because designing begins with establishing and staffing individual positions, the decision to use a radiology group to provide radiology services for the ED was a design issue. Subsequently, the proposal to use a telemedicine arrangement for reading radiographic images throughout evenings, weekends, and holidays is another design issue.

2. Identify the legal and licensing issues.

There are a number of legal issues. The ones most pertinent to the design issues in this case have to do with liability for services provided by the radiology group and by the possible telemedicine providers. There are also a number of contract issues, including who has control of staffing decisions made by the radiology group and the flexibility or lack thereof of the hospital and the group.

The licensing issues involved in outsourcing are well established when the organization uses domestic providers. The use of service providers based outside the United States is not well established. The CEO must be careful in decision making about this proposal regarding licensing questions and should seek advice from legal counsel.

3. What steps should be considered if Northern's CEO decides to enforce the contract?

Given the CEO's responsibility to assure appropriate staffing for Northern's emergency department (ED), a cautious approach to this decision is in order. An early step is to develop a workable backup plan for staffing the radiology services in the ED. This step presupposes that an effort to enforce the contract, with its attendant difficulties for the owner of the radiology group, might lead to a dispute resulting in the current group no longer providing services. In view of the hospital's obligations to assure provision of appropriate services and liabilities when this does not happen, plans are needed. The CEO is well advised to be guided by legal counsel in every aspect of contract enforcement efforts. This is clearly an area that requires specialized knowledge.

4. What public relations issues are present if the outsourcing proposal is accepted?

The most obvious issue with a decision to accept the outsourcing proposal will be the community's reaction to the decision. Although Northern is somewhat isolated, which restricts the choices of residents in its service area, the hospital's leaders must still be concerned about negative reactions to their decisions. Additionally, members of the professional staff may have issues with how their colleagues in the radiology group are treated in this situation. Relationships between hospital managers and professionals can be negatively affected if there is a perception that the professional staff has been treated unfairly.

Additional Case Study: The Secretaries

This case is interesting because, although it represents very poor management, the end result is at least partially acceptable. Some instructors may want to use the case because it illustrates important informal organization design concepts and issues.

Case

There are three secretaries in the business office of Pleasant Valley Nursing Center. The secretarial output proved to be a bottleneck in the office workflow. The secretaries had been assigned to various sections of the business office, and the office manager discovered that, when one secretary was overloaded with reports and other work, one or both of the other secretaries often had time to spare. The business office manager decided to pool the work of these secretaries instead of assigning them to one section of the office. On Friday afternoon she called them into her office and explained the new idea. They made little comment. During the weekend, however, one of the secretaries called the business office manager and told her she was resigning, giving the customary 2 weeks' notice.

On Monday the other two secretaries spoke to the business office manager and told her they did not like the new plan. They were concerned about how the pooling arrangement would affect their work and the perception other Pleasant Valley employees would have of their job status. The business office manager pointed out that they would be performing exactly the same work as before, at the same rate of pay, with the same titles. The secretaries said they had been aware of the overload situation but had not done anything about it because they had thought they were performing according to the wishes of the business office manager. The two secretaries then asked if they could work out a plan on their own.

Realizing that the pressure of her regular duties required her full attention, the business office manager shrugged her shoulders and told the secretaries to make their own arrangements. A replacement for the departing secretary arrived toward the end of that week.

Within a few weeks the three secretaries had devised a plan for synchronizing and interchanging work during rush periods. Although the plan looked very much like a pooled arrangement of work, the secretaries were satisfied with the arrangement. The business office manager was also satisfied because the workflow had been smoothed and the efficiency increased.

1. Why did the secretaries react as they did?

The secretaries reacted as they did because management interfered with the informal organization the secretaries had created. Worse, it had done so without much regard for the impact of its actions on the affected employees.

The degree to which an HSO/HS should structure its organization is very important in this case. In general, people who are working in production-type work (as opposed to creative work) do better in a structured organization. However, the informal organization is a very important aspect of the total organizational structure of an HSO/HS; the more the formal and informal aspects can be meshed, the better the relationship will be between superiors and subordinates—and the better the organization will function.

2. Using concepts of informal organization, how could the business office manager have improved the process by which this change was initiated?

The secretaries are satisfied and the business office manager is satisfied, but should she be? The business office manager has now set a precedent under which dissatisfied employees can object and feel that they have a good chance of getting their way. This attitude may cause future problems for the business office manager. A better approach would have been to work the problem through with the secretaries so that the formal and informal aspects of the situation meshed as closely as possible at the start.

3. Is the new arrangement part of the formal or informal organization at Pleasant Valley? Why?

The new arrangement is an example of an informally developed organizational arrangement that is accepted (formalized) by management. In the context of the discussion of this question, it might be useful for the instructor to review with students some of the positive and negative aspects of informal organizations presented in this chapter. This discussion could include the following potential advantages provided by the informal organization:

- It complements the formal organization and blends with the formal organization to generate a workable system to accomplish work.
- It provides necessary social values and stability to work groups.
- When people become primary members of one or more small groups, they achieve a sense of belonging and security unachievable by other means.
- It simplifies the manager's job; with informal group support, the manager can supervise in a much more general way than in the absence of such support. The manager can delegate and decentralize more when the informal group is cooperative.
- It provides an additional channel of communication. The grapevine can relay certain information to employees and can be used to determine feelings and attitudes of employees on various issues.

In this discussion, the instructor should point out that these positive attributes of the informal organization are offset by some that are negative:

- The most clear-cut disadvantage is that in many situations the individuals and groups that make up the informal organization can, and on occasion do, work at cross-purposes with the objectives of the formal organization.

- Role conflict can arise when the expectations for a person as a member of the formal organization conflict with expectations held by members of the informal group.

The important thing for the manager to remember is that the formal and informal portions of the organization or system must be balanced if optimum performance and goal attainment (for both individuals and the HSO/HS) are to be achieved.

Notes

1. Drucker, Peter F. *Concept of the Corporation*, 47–48. New York: John Day, 1972.
2. Newman, William H., Charles E. Summer, and E. Kirby Warren. *The Process of Management*, 3rd ed., 54–56. Englewood Cliffs, NJ: Prentice-Hall, 1972.
3. Mintzberg, Henry. *The Structuring of Organizations*. Englewood Cliffs, NJ: Prentice-Hall, 1979; Mintzberg, Henry. “Organization Design: Fashion or Fit?” *Harvard Business Review* 59 (January/February 1981): 103–116; Mintzberg, Henry. *Structure in Fives: Designing Effective Organizations*. Englewood Cliffs, NJ: Prentice-Hall, 1983.

