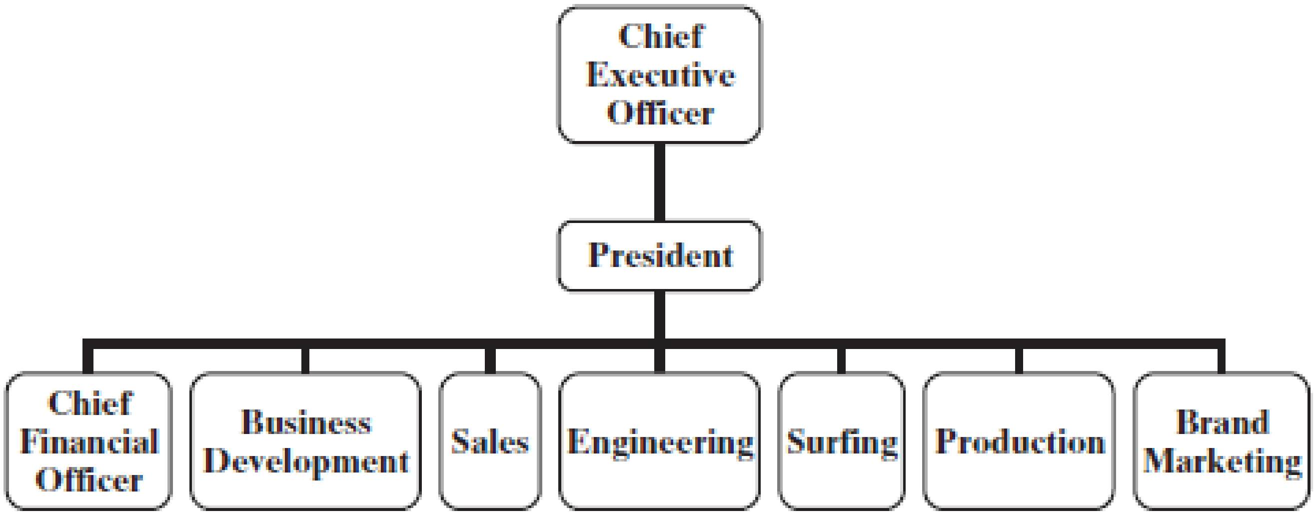


THEORY INTO PRACTICE

Use functional structures to shape the development of technical skills and expert knowledge on the part of employees.

No matter how functionally oriented an organization might be, there must also be some simultaneous capacity to respond to the marketplace. Functional structures attempt to achieve that responsiveness through a well-ordered sequential process.

In a functionally structured manufacturing firm, for example, we can follow the sequence:

1. Ideas from the marketplace enter the organization through the marketing department.
2. Engineers translate those ideas into designs.
3. Production transforms designs from concept to reality.
4. Products are delivered to customers via the sales department.
5. The financial department attends to such matters as profit margin and return on investment.

It is the responsibility of the general manager who sits atop the functional structure—sometimes a CEO, a senior vice president, or a managing director—to assure that the appropriate level of coordination among these sequential functional activities is achieved.

Because leaders call upon structures to focus employee behaviors, it is important to ask: Just what kind of employee behaviors can functional structures be expected to reinforce?

Let's start with the rigorous development of in-depth technical expertise. This development is enhanced by a functional career path that typically moves employees upward through a specific department. The organization hires individuals who enter at a low level of a function, then move vertically upward through that function as performance warrants. The organization gains from functional career path by developing and retaining their employees' expertise and knowledge. The individual gains clear career expectations, speedy upward mobility, and rapid salary escalation. Organizations whose success depends heavily on the depth of their technical competencies—accounting firms, hospitals, law partnerships, and universities, for instance—typically adhere to this functional pattern.

Organizational leaders may find that by moving to functional structures they inadvertently prompt behavioral patterns that can prove problematic. If an organization seeks enhanced innovation and speedier responsiveness to the marketplace, leaders may find a functional structure to be limiting and inhibiting. By focusing employees on achieving efficiencies and incremental improvements in existing products and services, functional structures may render employees less likely to be able to respond quickly with new and innovative offerings.

Much of the behavioral problem inherent in functional structures relates to low levels of coordination among employees, especially employees across different functional units. Functionally trained and developed individuals may find coordinated efforts with individuals from other departments to be difficult. Over time, insulated units tend to develop their own ways of thinking, unique patterns of working, speaking, conceptualizing time, and even defining effectiveness.[4]

In functional structures, employees have little opportunity to develop the competencies required of working together across departmental boundaries. At its worst, a kind of "us against them" mentality can evolve as employees battle each other across functions rather than uniting against common (external) competitors. The skills of the general manager may not be sufficient to overcome these structural barriers and achieve the required coordination.

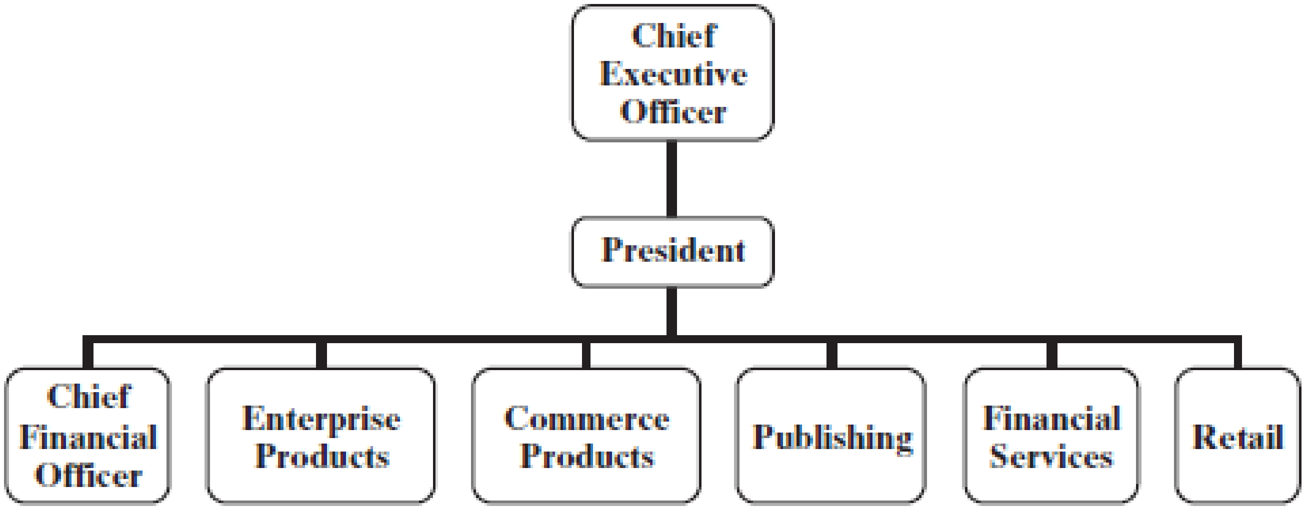
THEORY INTO PRACTICE

Organizations seeking to create seamless coordination across functions may find that the silos erected through functional structures get in the way.

Organizational change efforts may seek to deal with the challenges raised by a functional structure. The particular challenge is to enhance marketplace responsiveness. One of the most common ways of achieving that focus is to adopt a divisional structure.

FOCUS ON MARKETPLACE RESPONSIVENESS As organizations grow in both size and complexity, they often seek greater external focus. Most typically, they turn to a **divisional structure** as a way of reinforcing behaviors that respond to the marketplace.

All activities associated with a particular product or families of products are brought together in a divisional unit. A general manager, often a senior vice president, divisional president, or managing director, sits atop each unit. That structure is depicted in Exhibit 6-2 for a prototypical software developer.



Another divisional option is to adopt a geographically focused structure. To reinforce geographic responsiveness, a fast-food chain, which is essentially a single-product operation, can create separate geographic divisions. McDonald's non-U.S. operations are subdivided into four regions: Asia/Pacific/Middle East/Africa, Canada, Europe, and Latin America. The company does so because executives believe that important differences exist in these multiple regions—in customer tastes and expectations, in supplier relationships, in government regulations, and in financial and labor markets—that require a differentiated response.

As we saw in the case of Macy's, regional structures may also be called upon to bring greater focus on local markets even within the same country. Differences in taste, style, and customer preferences do exist across regions. By creating 69 geographic districts, Macy's enhanced local autonomy which allowed for local responsiveness. The districts were not entirely autonomous, however, with corporate headquarters in Cincinnati still providing some centralized support functions.

THEORY INTO PRACTICE

Divisional structures enhance coordinated focus on the marketplace but make integration across highly autonomous divisional units difficult to achieve.

The object of the divisional structure, whether it is based on products, customer groups, or geographic locations, is to reinforce a market focus. Product divisions pay close attention to the expectations and needs of customers for their particular offerings, while geographic divisions can attend to the special requirements and habits of the customers in their regions.

It is precisely that focused attention on the external marketplace that, it is hoped, allows companies organized divisionally to meet the challenge of coordination faced by functionally structured companies. By concentrating on a clearly defined and understood market segment, divisions seek to win by offering new products and services. Rapid responsiveness to shifting market realities is the goal.

Changing from a functional to a divisional structure is not cost-free. Functional organizations seek the economies of scale; divisional organizations can be thought of as doing the opposite. In pure form, each functional activity is repeated in each division.

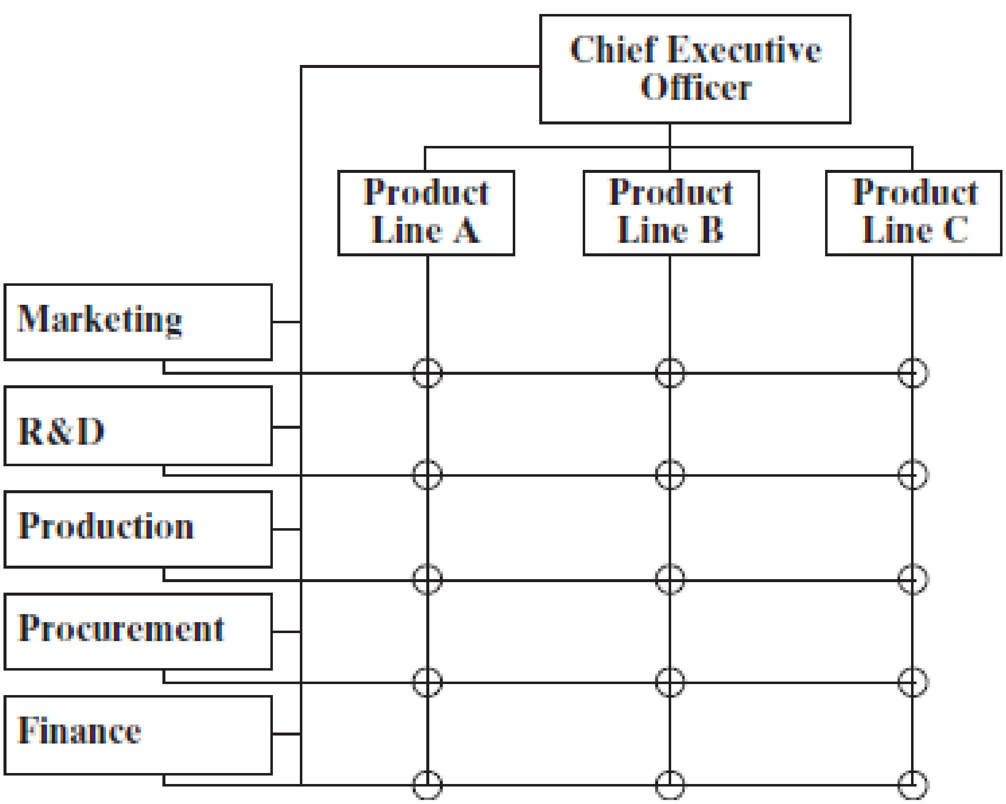
Adopting a divisional structure is meant to shape market-focused behaviors. It is not, in and of itself, any guarantee of true responsiveness. Remember, each product division is a self-contained functional organization. The problems often associated with functional organizations—internal focus, poor coordination, sluggish response time—can accrue over time in a product division. In multidivisional organizations, problems of coordination may arise across and between divisions. In order to respond to such problems, organizational leaders may now seek a kind of collaborative balance between functional and product divisions.

THEORY INTO PRACTICE

Functional silos can exist within divisional structures.

DUAL FOCUS Leaders opt for a functional structure in order to emphasize efficiencies and depth of technical know-how and experience. A shift to divisional structures helps reinforce external focus on the marketplace. However, many organizations cannot make an either/or choice between internal and external focus. As the external environment becomes increasingly complex, organizational leaders need to consider increasing the complexity of their internal structures.

One choice available to organizations is the **matrix structure**. Exhibit 6-3 depicts one type of matrix structure. In that organization, both divisional and functional structures exist in an overlapping fashion, allowing for dual focus.



The requirement for dual focus might also arise from geographic demands. ABB built a geographic matrix through three regional groupings—Europe/Middle East/Africa, the Americas, and Asia—while simultaneously seeking segment focus through power, transmission and distribution, and industry and building systems divisions. Strategic focus again lies at the heart of the organization's challenge. While functional and product divisions prioritize their focus, matrix structures seek dual focus, attempting to move both quickly and efficiently.

THEORY INTO PRACTICE

Organizations can move to a matrix structure to help support dual focus—on technical expertise and marketplace responsiveness.

The most striking—and for many people the most troubling—feature of the matrix is the lack of a single reporting relationship. Consider the matrix structure depicted in Exhibit 6-3. Assume you are a market analyst housed in product line C. Who is your boss: the manager of product line C or the head of marketing? The answer, of course, is: both. In order to achieve the desired complexity of focus, you will be reporting to and expected to be responsive to both simultaneously.

The notion of dual reporting relationships violates one of people's most deeply held assumptions about the desirability of a clear and unified chain of command in organizations. By breaking that clear chain of command, matrix structures require employees to deal with competing, even conflicting directions from multiple bosses. Ambiguity, tension, even conflict—these are all likely outcomes of a matrix. That likelihood undoubtedly accounts for the high failure rate—perhaps as high as 70 percent—reported by organizations who have attempted to implement a matrix.[5]

Despite their obvious complexities and ambiguities, when matrix organizations reflect the complexities and ambiguities in their external environment, they can enable greater responsiveness. Because most organizations "have to do business with multiple customers, multiple partners, multiple suppliers, and compete against multiple rivals can multiple areas of the world," writes Jay Galbraith, they will need a structure that allows them to deal with multiple constituencies.[6] In order to respond to multiple constituencies, IBM currently maintains not two but *three* overlapping structures: products (hardware, software, and business solutions), customer groups (large corporations, governments, health care facilities, etc.), and geographic regions.

THEORY INTO PRACTICE

Matrix structures will be most effective in organizations that can manage ambiguity, tension, and conflict well.

Despite the difficulties inherent in managing a matrix, it is often necessary in order to compete effectively in today's highly fragmented competitive environment. Organizations that are able to make a matrix function effectively will enjoy a great competitive advantage.

FOCUS ON THE SUPPLY CHAIN The advent of sophisticated information technology and the geographic dispersion of technological excellence and knowledge have encouraged organizations to focus on their supply chain. Organizations develop competitive advantage and create shareholder wealth through an interdependent sequence of activities known as the **supply chain**.

The supply chain can be defined as "the separate activities, functions, and business processes that are performed in designing, producing, marketing, delivering, and supporting a product or service."[7] **Horizontally linked structures** focus employees on the interrelated activities of the supply chain.

Horizontally linked structures usually supplement rather than replace existing functional or product structure in an organization. Dell Computers, a pioneer in supply chain linkages, relies on what founder Michael Dell calls "virtual integration." Dell focuses its attention on "how we can coordinate our activities to create the most value for customers."[8] Companies as varied as Zara, Wal-Mart, Southwest Airlines, and Shouldice Hospital call upon horizontally linked structures to coordinate supply chain activities in order to provide customers with a unique experience and their companies with a unique competitive advantage.

Zara, a fashion chain owned by Spain-based Inditex (which also owns and operates Pull & Bear, Massimo, and Dutti, among other retail formats), has succeeded by organizing activities around its supply chain. Starting with a clearly stated strategy—a focus on the ever-changing tastes of trendy young shoppers—Zara created raw material and design teams that could deliver their newly designed products into Zara retail stores within 3 to 15 days.[9] An organization chart for Zara is presented in Exhibit 6-4.

More traditionally structured apparel companies, where activities in the supply chain are separate and unlinked, often take up to a year to move from design to sale. Given the dynamic tastes of the rather fickle consumer base for fashion, slowness often leads to unused inventory, price-slashing sales, and waste.