

Structure and Restructuring

When society requires to be rebuilt, there is no use in attempting to rebuild it on the old plan.

—John Stuart Mill

In 2004, a crisis over journalistic standards ensnared the British Broadcasting Corporation (BBC) in a flurry of parliamentary hearings, resignations, and public recrimination. The controversy so tarnished the respected institution's reputation that top officials took steps to ensure that it would never happen again.

They initiated a number of structural changes: a journalism board to monitor editorial policy, guidelines on journalistic procedures, forms to flag trouble spots that managers were required to complete, and a 300-page volume of editorial guidelines. The cumulative effect of the changes was a multilayered bureaucracy that limited managerial discretion and fostered a hierarchy of approve-disapprove boxes. These were to be passed up the chain of command as an alternative to probing questions at lower levels in the organization.

Some cures make the patient worse, and this newly restructured system resulted in two crises more damaging than the one in 2004. In October 2012, the BBC came under heavy fire when it became known that it had broadcast a glowing tribute to a well-known former BBC TV host, Jimmy Savile, but killed an investigative report detailing evidence that Savile had been a serial child molester. The following month, the BBC aired a report wrongly accusing a member of Margaret Thatcher's government of being a pedophile.

Postmortem investigations attributed both errors directly to BBC's restructured, highly bureaucratized system.

In another case, when Larry Summers, an economist and former treasury secretary, became president of Harvard University in 2001, he soon concluded that the venerable university needed a structural overhaul, and he subsequently issued a series of presidential directives. He attacked the undergraduate grading system, in which half of the students received As and 90 percent graduated with honors. He stiffened standards for awarding tenure, encouraged more foreign study, and directed faculty (especially senior professors) to spend more time with students. He stepped across curricular boundaries to call for an emphasis on educational reform and more interdisciplinary courses. He proposed a center for medicine and science to encourage more applied research. Finally, he announced a bold move to build an additional campus across the Charles River to house new growth and development. Summers's initiatives aimed to tighten Harvard's famously decentralized structure and to imbue the president's office with more clout.

Restructuring worked about as well for Summers as it had for the BBC—he was forced out after serving the shortest term for a Harvard president in more than a century. Reorganizing or restructuring is a powerful but high-risk approach to improvement. Major initiatives to redesign structure and processes often prove neither durable nor beneficial. Designing a structure, putting all the parts in place, and satisfying every interested party is difficult and hazardous. Although restructuring is a manager's strategy of choice to improve performance, a Boston Group Study estimates 50 percent of the efforts fail (BSG, 2012). Other estimates put the misfire rate even higher (HBR, 2000).

But it is also true that, over the past 100 years, management innovations such as decentralization, capital budgeting techniques, and self-governing teams have done more than any other kind of innovation to allow companies to cross new performance thresholds (Hamel, 2006). American automakers scratched their heads for 20 years trying to figure out what made Toyota so successful. They tried all kinds of process innovations but finally reached the conclusion that Toyota had simply given their employees more authority to make decisions and solve problems (Hamel, 2006).

An organization's structure at any moment represents its resolution of an enduring set of basic tensions or dilemmas, which we discuss in opening this chapter. Then, drawing on the work of Henry Mintzberg and Sally Helgesen, we describe two views of the alternatives organizations may consider in aligning structure with mission and environment. We conclude with case examples illustrating both opportunities and challenges that managers encounter when attempting to create more workable and successful structural designs.

STRUCTURAL DILEMMAS

Finding an apt system of authority, roles, and relationships is an ongoing, universal struggle. Managers rarely face well-defined problems with clear-cut solutions. Instead, they confront enduring structural dilemmas, tough trade-offs without easy answers.

Differentiation versus Integration

The tension between assigning work and synchronizing sundry efforts creates a classic dilemma, as seen in Chapter 3. The more complex a role structure (lots of people doing many different things), the harder it is to sustain a focused, tightly coupled enterprise. Recall the challenge facing Larry Summers as he tried to bring a higher level of coordination to a highly decentralized university. As complexity grows, organizations need more sophisticated—and more costly—coordination strategies. Lateral strategies need to supplement top-down rules, policies, and commands.

Gap versus Overlap

If key responsibilities are not clearly assigned, important tasks fall through the cracks. Conversely, roles and activities can overlap, creating conflict, wasted effort, and unintended redundancy. A patient in a prestigious teaching hospital, for example, called her husband and pleaded with him to rescue her. She couldn't sleep at night because hospital staff, especially nurses' aides and interns, kept waking her, often to repeat a procedure or administer a medication that someone else had done a short time before. Conversely, when she wanted something, pressing her nurses' call button rarely produced any response.

The new cabinet-level Department of Homeland Security, created in the wake of the 9/11 terrorist attacks, was intended to reduce gaps and overlaps among the many agencies responsible for responding to domestic threats. Activities incorporated into the new department included immigration, border protection, emergency management, and intelligence analysis. Yet the two most prominent antiterrorism agencies, the FBI and the CIA—with their long history of mutual gaps, overlaps, and bureaucratic squabbling—remained separate and outside the new agency (Firestone, 2002).

Underuse versus Overload

If employees have too little work, they become bored and get in other people's way. Members of the clerical staff in a physician's office were able to complete most of their tasks during the morning. After lunch, they filled their time talking to family and friends. As a result, the office's telephone lines were constantly busy, making it difficult for patients to ask questions and schedule appointments. Meanwhile, clients and routine paperwork swamped

the nurses, who were often brusque and curt because they were so busy. Patients complained about impersonal care. Reassigning many of the nurses' clerical duties to office staff created a better structural balance.

Lack of Clarity versus Lack of Creativity

If employees are unclear about what they are supposed to do, they often tailor their roles to fit personal preferences instead of shaping them to meet system-wide goals. This frequently leads to trouble. Most McDonald's customers are not seeking novelty and surprise in their burgers and fries. But when responsibilities are over-defined, people conform to prescribed roles and protocols in "bureaupathic" ways. They rigidly follow job descriptions, regardless of how much the service or product suffers.

"You lost my bag!" an angry passenger shouted, confronting an airline manager.

The manager responded, "How was the flight?"

"I asked about my bag," said the passenger.

"That's not my job," the manager replied. "Check with baggage claim."

The passenger did not leave as a satisfied customer.

Excessive Autonomy versus Excessive Interdependence

If the efforts of individuals or groups are too autonomous, people often feel isolated. Schoolteachers may feel lonely and unsupported because they work in self-contained classrooms and rarely see other adults. Yet efforts to create closer teamwork have repeatedly run aground because of teachers' difficulties in working together. In contrast, if too tightly connected, people in roles and units are distracted and spend too much time on unnecessary coordination. IBM lost an early lead in the personal computer business in part because new initiatives required so many approvals—from levels and divisions alike—that new products were overdesigned and late to market. The same problem hindered Hewlett-Packard's ability to innovate in the late 1990s.

Too Loose versus Too Tight

One critical structural challenge is how to hold an organization together without holding it back. If structure is too loose, people go astray, with little sense of what others are doing. But rigid structures stifle flexibility and encourage people to waste time trying to beat the system.

We can see some of the perils of a loose structure in the former accounting firm Andersen Worldwide, indicted in 2002 for its role in the Enron scandal. Efforts to shred documents and alter memos at Andersen's Houston office went well beyond questionable accounting procedures. At its Chicago headquarters, Andersen had an internal audit team, the Professional Standards Group, charged with reviewing the work of regional offices.

Unlike other large accounting firms, Andersen let frontline partners closest to the clients overrule the internal audit team. This fostered local discretion that was a selling point to customers but came back to haunt the firm. As a result of the lax controls, “the rainmakers were given the power to overrule the accounting nerds” (McNamee and Borrus, 2002, p. 33).

The opposite problem is common in managed health care. Insurance companies give clerks far from the patient’s bedside the authority to approve or deny treatment or to review medical decisions, often frustrating physicians and patients. Doctors lament spending time talking to insurance representatives that would be better spent seeing patients. Insurance providers sometimes deny treatments that physicians see as urgent. In one case, a hospital-based psychologist diagnosed an adolescent as likely to commit sexual assault. The insurer questioned the diagnosis and denied hospitalization. The next day, the teenager raped a five-year-old girl.

Goal-less versus Goal-bound

In some situations, few people know what the goals are; in others, people cling closely to goals long after they have become irrelevant or outmoded. In the 1960s, for example, the Salk vaccine virtually eradicated polio. This medical breakthrough also brought to an end the existing goal of the March of Dimes organization, which for years had championed finding a cure for the crippling disease. The organization rebounded by shifting its strategy to focus on preventing birth defects.

Irresponsible versus Unresponsive

If people abdicate their responsibilities, performance suffers. However, adhering too rigidly to policies or procedures can be equally harmful. In public agencies, “street-level bureaucrats” (Lipsky, 1980) who deal with the public are often asked, “Could you do me this favor?” or “Couldn’t you bend the rules a little bit in this case?” Turning down every request, no matter how reasonable, alienates the public and perpetuates images of bureaucratic rigidity and red tape. But agency workers who are too accommodating create problems of inconsistency and favoritism.

STRUCTURAL CONFIGURATIONS

Structural design rarely starts from scratch. Managers search for options among the array of possibilities drawn from their accumulated wisdom and the experiences of others. Templates and frameworks can offer options to stimulate thinking. Henry Mintzberg and Sally Helgesen offer two abstract conceptions of structural possibilities.

Greatest Hits from Organization Studies

Hit Number 7: Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics* 1976, 3, 305–360

This classic article, seventh on our list of works most often cited by scholars, focuses on two central questions:

- What are the implications of the "agency problem"—that is, the conflicts of interest between principals and their agents?
- Given those conflicts, why do corporations even exist?

An agency relationship is a structural arrangement created whenever one party engages another to perform a task. Jensen and Meckling's particular focus is the relationship between a corporation's owners (shareholders) and their agents, the managers. Principals and agents both seek to maximize utility, but their interests often diverge. If you are a sole proprietor, a dollar of the firm's money is a dollar of yours as well. But if you are an employee with no ownership interest, you're spending someone else's money when you pad your expense account or schedule a business meeting at an expensive resort.

One rationale for linking executive compensation to the price of the company's stock is that it may reduce the agency problem, but the impact is often marginal at best. A notorious example is Tyco's chief executive, Dennis Kozlowski, who reportedly spent more than \$30 million of company money to buy, furnish, and decorate his palatial apartment in New York City (Sorkin, 2002). Nonexecutive shareholders hate this kind of thing, but it is difficult for them to stay abreast of everything management does, and they can't do it without incurring "monitoring costs"—time and money spent on things like supervision and auditing.

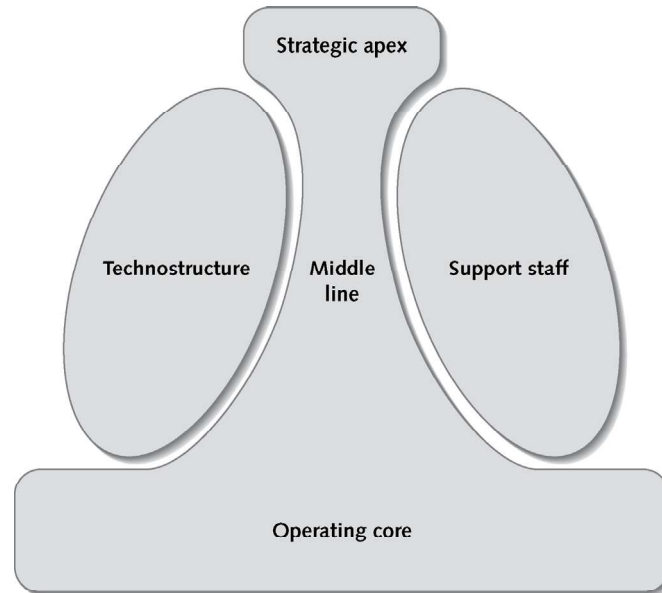
One implication the authors draw is that the primary value of stock analysts is the sentinel function they perform. Analysts' ability to pick stocks is notoriously poor, but their oversight puts more heat on managers to serve shareholder interests. The article also concludes that, despite the agency conflicts, the corporate form still makes economic sense for the parties involved—managers cost more than owners wish, but they still earn their keep.

The authors see the agency problem as a pervasive feature of cooperative activity. The relationship between a team and individual members, or between a boss and a subordinate, is like that between principal and agent. If members of a team share rewards equally, for example, there is an incentive for "free riders" to let someone else do most of the work. Principals face a perennial problem of keeping agents in line and on task.

Mintzberg's Fives

As the two-dimensional lines and boxes of a traditional organization chart have become increasingly archaic, students of organizational design have developed a variety of new structural images. One influential example is Mintzberg's five-sector "logo," depicted in

Exhibit 4.1.
Mintzberg's Model.



Source: Mintzberg (1979, p. 20). Copyright ©1979. Reprinted by permission of Prentice Hall, Upper Saddle River, NJ.

Exhibit 4.1. Mintzberg's model clusters various functions into groupings and shows their relative size and influence in response to different strategies and external challenges. His schema provides a rough atlas of the structural terrain that can help managers get their bearings. It assists in sizing up the lay of the land before assembling a structure that conforms to the prevailing circumstances. One of the distinctive features of Mintzberg's image is expanding the typical two-dimensional view of structure into a more comprehensive portrayal. In doing this, he is able to capture more of the complexity and issues in formal dealings.

At the base of Mintzberg's image is the *operating core*, consisting of workers who produce or provide products or services to customers or clients: teachers in schools, assembly-line workers in factories, physicians and nurses in hospitals, and flight crews in airlines.

Directly above the operating core is the *administrative component*: managers who supervise, coordinate, control, and provide resources for the operators. School principals,

factory supervisors, and echelons of middle management fulfill this role. At the top of Mintzberg's figure, senior managers in the strategic apex track developments in the environment, determine the strategy, and shape the grand design. In school systems, the strategic apex includes superintendents and school boards. In corporations, the apex houses the board of directors and senior executives.

Two more components sit alongside the administrative component. The *technostructure* houses specialists, technicians, and analysts who standardize, measure, and inspect outputs and procedures. Accounting and quality control departments in industry, audit departments in government agencies, and flight standards departments in airlines perform such functions.

The *support staff* performs tasks that support or facilitate the work of others throughout the organization. In schools, for example, the support staff includes nurses, secretaries, custodians, food service workers, and bus drivers. These people often wield influence far greater than their station might suggest.

From this basic blueprint, Mintzberg (1979) derived five structural configurations: simple structure, machine bureaucracy, professional bureaucracy, divisionalized, and adhocracy. Each creates a unique set of management challenges.

Simple Structure

New businesses typically begin as simple structures with only two levels: the strategic apex and an operating level. Coordination is accomplished primarily through direct supervision and oversight, as in a small mom-and-pop operation. Mom or pop constantly monitors what is going on and exercises complete authority over daily operations. William Hewlett and David Packard began their business in a garage, as did Apple Computer's Steve Jobs and Steve Wozniak. Simple structure has the virtues of flexibility and adaptability. One or two people control the operation and can turn on a dime when needed. But virtues can become vices. Authorities can block as well as initiate change, and they can punish capriciously as well as reward handsomely. A boss too close to day-to-day operations is easily distracted by immediate problems, neglecting long-range strategic issues. A notable exception was Panasonic founder Konosuke Matsushita, who promulgated his 250-year plan for the future of the business when his young company still had less than 200 employees.

Machine Bureaucracy

McDonald's is a classic machine bureaucracy. Members of the strategic apex make the big decisions. Managers and standardized procedures govern day-to-day operations. Like other machine bureaucracies, McDonald's has large support staffs and a sizable techno-structure

that sets standards for the cooking time of French fries or the assembly of a Big Mac or Quarter Pounder.

For routine tasks, such as making hamburgers and manufacturing automotive parts, a machine-like operation is both efficient and effective. A key challenge is how to motivate and satisfy workers in the operating core. People quickly tire of repetitive work and standardized procedures. Yet offering too much creativity and personal challenge in, say, a McDonald's outlet could undermine consistency and uniformity—two keys to the company's success.

Like other machine bureaucracies, McDonald's deals constantly with tension between local managers and headquarters. Local concerns and tastes weigh heavily on decisions of middle managers. Top executives, aided by analysts armed with reams of data, rely more on generic and abstract information. Their decisions are influenced by corporation-wide concerns. As a result, a solution from the top may not always match the needs of individual units. Faced with declining sales and market share, McDonald's introduced a new food preparation system in 1998 under the marketing banner "Made for you." CEO Jack Greenberg was convinced the new cook-to-order system would produce the fresher, tastier burgers needed to get the company back on the fast track. However, franchisees soon complained that the new system led to long lines and frustrated customers. Unfazed by the criticism, Greenberg invited a couple of skeptical financial analysts to flip burgers at a McDonald's outlet in New Jersey so they could see firsthand that the concerns were unfounded. The experiment backfired. The analysts agreed with local managers that the system was too slow and decided to pass on the stock (Stires, 2002). The board replaced Greenberg at the end of 2002.

Professional Bureaucracy

Harvard University affords a glimpse into the inner workings of a professional bureaucracy. As in other organizations that employ large numbers of highly educated professionals to perform core activities, Harvard's operating core is large relative to other structural parts, although the technostructure has grown in recent years to accommodate mandated programs such as racial equity or gender sensitivity. At the operating sphere, each individual school, for example, has its own local approach to teaching evaluations; there is no university-wide profile developed by analysts. Few managerial levels exist between the strategic apex and the professors, creating a flat and decentralized profile.

Control relies heavily on professional training and indoctrination. Insulated from formal interference, professors have almost unlimited academic freedom to apply their expertise as they choose. Freeing highly trained experts to do what they do best produces many benefits

but leads to challenges of coordination and quality control. Tenured professors, for example, are largely immune from formal sanctions. As a result, universities have to find other ways to deal with incompetence and irresponsibility. Faced with a professor whose teaching performance was moving from erratic to bizarre, a Harvard dean did the one thing he felt he could do—he relieved the professor of teaching responsibilities while continuing to pay his full salary. The dean was not very disappointed when the professor quit in anger (Rosovsky, 1990).

A professional bureaucracy responds slowly to external change. Waves of reform typically produce little impact because professionals often view any change in their surroundings as an annoying distraction. The result is a paradox: Individual professionals may strive to be at the forefront of their specialty, whereas the institution as a whole changes at a glacial pace. Professional bureaucracies regularly stumble when they try to exercise greater control over the operating core; requiring Harvard professors to follow standard teaching methods might do more harm than good.

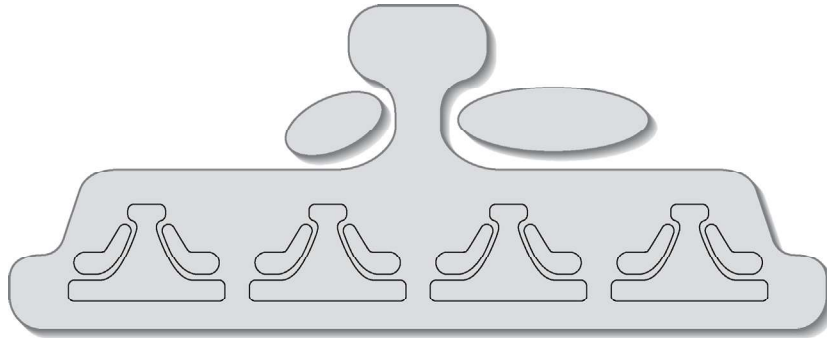
Harvard president Larry Summers tripped over this challenge in a famous case when he suggested that superstar African American studies professor Cornel West redirect his scholarly efforts. Summers gave his advice to West in private, but West's pique made the front page of the *New York Times* (Belluck and Steinberg, 2002). Summers's profuse public apologies failed to deter the offended professor from decamping to Princeton, where he stayed for 14 years before returning to Harvard in 2016. In professional bureaucracies, professionals often win struggles between the strategic apex and the operating core. Hospital administrators learn this lesson quickly, and often painfully, in their dealings with physicians.

Divisionalized Form

In a divisionalized organization (see Exhibit 4.2), the bulk of the work is done in quasiautonomous units, such as freestanding campuses in a multi-campus university, areas of expertise in a large multispecialty hospital, or independent business units in a Fortune 500 firm (Mintzberg, 1979). Johnson and Johnson, for example, is among the largest companies in the world (#39 on the Fortune 500 in 2016). It has 250 operating companies lodged in virtually every country. Its medical device division is the world's largest. Its pharmaceutical division is even bigger. Its consumer products division produces a wide assortment of well-known brands, such as Neutrogena, Tylenol, Band-Aids, and Rogaine. It also makes contact lenses and tuberculosis medicines.

Although J&J's divisions often have little in common, the company's executives argue that there is a level of shared synergy and stability that have paid off over time. Despite

Exhibit 4.2.
Divisionalized Form.



Source: Mintzberg (1979, p. 393). Copyright © 1979. Reprinted by permission of Pearson Education, Inc., New York, New York.

setbacks in the Tylenol crisis of 1982 and a series of product recalls in 2010 and 2012, J&J had raised its dividend for 53 consecutive years and was one of only two U.S. companies with an AAA credit rating.

One of the oldest businesses in the United States, Berwind Corporation began in coal-mining in 1886. It now houses divisions in business sectors as diverse as manufacturing, financial services, real estate, and land management. Each division serves a distinct market and supports its own functional units. Division presidents are accountable to the corporate office in Philadelphia for specific results: profits, sales growth, and return on investment. As long as they deliver, divisions have relatively free rein. Philadelphia manages the strategic portfolio and allocates resources based on its assessment of market opportunities.

Divisionalized structure offers economies of scale, resources, and responsiveness while controlling economic risks, but it creates other tensions. One is a cat-and-mouse game between headquarters and divisions. Headquarters wants oversight, while divisional managers try to evade corporate control:

Our top management likes to make all the major decisions. They think they do, but I've seen one case where a division beat them. I received . . . a request from the division for a chimney. I couldn't see what anyone would do with a chimney . . .

[But] they've built and equipped a whole plant on plant expense orders. The chimney is the only indivisible item that exceeded the \$50,000 limit we put on plant expense orders. Apparently they learned that a new plant wouldn't be formally received, so they built the damn thing (Bower, 1970, p. 189).

Another risk in the divisionalized form is that headquarters may lose touch with operations. As one manager put it, "Headquarters is where the rubber meets the air." Divisionalized enterprises become unwieldy unless goals are measurable and reliable information systems are in place (Mintzberg, 1979).

Adhocracy

Adhocracy is a loose, flexible, self-renewing organic form tied together primarily through lateral means. Usually found in a diverse, freewheeling environment, adhocracy functions as an "organizational tent," exploiting benefits that structural designers traditionally regarded as liabilities: "Ambiguous authority structures, unclear objectives, and contradictory assignments of responsibility can legitimize controversies and challenge traditions. Incoherence and indecision can foster exploration, self-evaluation, and learning" (Hedberg, Nystrom, and Starbuck, 1976, p. 45). Inconsistencies and contradictions in an adhocracy become paradoxes whereby a balance between opposites protects an organization from falling into an either-or trap.

Ad hoc structures thrive in conditions of turbulence and rapid change. Examples are advertising agencies, think-tank consulting firms, and the recording industry. A successful and durable example of an adhocracy is W. L. Gore, producer of Gore-Tex, vascular stents, dental floss, and many other products based on its pioneering development of advanced polymer materials. When he founded the company in 1958, Bill Gore conceived it as an organization where "there would be no layers of management, information would flow freely in all directions, and personal communications would be the norm. And individuals and self-managed teams would go directly to anyone in the organization to get what they needed to be successful" (Hamel, 2010).

Half a century later, Gore has more than 10,000 employees (Gore calls them "associates") and some \$3 billion in annual sales but still adheres to Bill Gore's principles. In Gore's "lattice" structure, people don't have bosses. Instead, the company relies on "natural leaders"—individuals who can attract talent, build teams, and get things done. One test: If you call a meeting and no one comes, you're probably not a leader. When Gore's CEO retired in 2005, the board polled associates to find out whom they would be willing to follow. They weren't given a slate—they could nominate anyone. No one was more surprised than Terri Kelly when she became the people's choice. She acknowledges that Gore's approach

carries a continuing risk of chaos. It helps, she says, that the culture has clear norms and values, but “Our leaders have to do an incredible job of internal selling to get the organization to move. The process is sometimes frustrating, but we believe that if you spend more time up front, you’ll have associates who are not only fully bought-in, but committed to achieving the outcome. Along the way, they’ll also help to refine the idea and make the decision better” (Hamel, 2010).

Helgesen’s Web of Inclusion

Mintzberg’s five-sector imagery adds a new dimension to the conventional line-staff organization chart but retains some of the traditional image of structure as a top-down pyramid. Helgesen argues that the idea of hierarchy is primarily a male-driven depiction, quite different from structures created by female executives:

The women I studied had built profoundly integrated and organic organizations in which the focus was on nurturing good relationships; in which the niceties of hierarchical rank and distinction played little part; and in which lines of communication were multiplicitous, open, and diffuse. I noted that women tended to put themselves at the center of their organizations rather than at the top, thus emphasizing both accessibility and equality, and that they labored constantly to include people in their decision making (Helgesen, 1995, p. 10).

Helgesen coined the expression “web of inclusion” to depict an organic social architectural form more circular than hierarchical. The web builds from the center out. Its architect works much like a spider, spinning new threads of connection and reinforcing existing strands. The web’s center and periphery are interconnected; action in one place ripples across the entire configuration, forming “an interconnected cosmic web in which the threads of all forces and events form an inseparable net of endlessly, mutually conditioned relations” (Fritjof Capra, quoted in Helgesen, 1995, p. 16). Consequently, weaknesses in either the center or the periphery of the web undermine the strength of the natural network.

A famous example of web organization is “Linux, Inc.,” the loose organization of individuals and organizations that has formed around Linus Torvalds, the creator of the open-source operating system Linux, whose many variants power most of the world’s supercomputers, cell phones, stock markets, and Web domains. “Linux, Inc.” is anything but a traditional company: “There’s no headquarters, no CEO, and no annual report. It’s not a single company, but a cooperative venture. More than 13,000 developers from more than 1,300 companies along with thousands of individual volunteers have contributed to the

Linux code. The Linux community, Torvalds says, is like a huge spider web, or better yet, multiple spider webs representing dozens of related open-source projects. His office is ‘near where those webs intersect’” (Hamm, 2005).

Freewheeling web or lattice structures may encounter increasing challenges as an organization gets bigger. When Meg Whitman became CEO of Internet phenomenon eBay in 1998, she joined an organization of fewer than 50 employees configured in an informal web around founder Pierre Omidyar. When she tried to set up appointments with her new staff, she was surprised to learn that scheduled meetings were a foreign concept in a company where no one kept a calendar. Omidyar had built a company with a strong culture and powerful sense of community but no explicit strategy, no regular meetings, no marketing department, and almost no other identifiable structural elements. Despite the company’s phenomenal growth and profitability, Whitman concluded that it was in danger of imploding without more structure and discipline. Omidyar agreed. He had worked hard to recruit Whitman because he believed she brought the big-company management experience that eBay needed to keep growing (Hill and Farkas, 2000).

GENERIC ISSUES IN RESTRUCTURING

Eventually, internal or external changes force every structure to adjust, but structural change is rarely easy. When the Roman Catholic Church elevated a new pope, Francis, in March, 2013, many hoped that he would represent a breath of fresh air after the troubled reign of his predecessor. But a well-placed insider noted how difficult this would be, even for a supposedly absolute ruler: “There have been a number of Popes in succession with different personalities, but the structure remains the same. Whoever is appointed, they get absorbed by the structure. Instead of you transforming the structure, the structure transforms you” (Donadio and Yardley, 2013).

When the time for restructuring comes, managers need to take account of tensions specific to each structural configuration. Consultants and managers often apply general principles and specific answers without recognizing key differences across architectural forms. Reshaping an adhocracy, for example, is different from restructuring a machine bureaucracy, and reweaving a web is very different from nudging a professional bureaucracy. Falling victim to the one-best-system or one-size-fits-all mentality is a route to disaster. But the comfort of a well-defined prescription lulls too many managers into a temporary comfort zone. They don’t see the iceberg looming ahead until they crash into it.

Mintzberg’s depiction suggests general principles to guide restructuring across a range of circumstances. Each major component of his model exerts its own pressures. Restructuring

triggers a multidirectional tug-of-war that eventually determines the shape of the emerging configuration. The result may be a catastrophe unless leaders acknowledge and manage various pushes and pulls.

The strategic apex—top management—tends to exert centralizing pressures. Through commands, rules, or less obtrusive means, top managers continually try to develop a unified mission or strategy. Deep down, they long for a simple structure they can control. By contrast, middle managers resist control from the top and tend to pull the organization toward balkanization. Navy captains, school principals, plant managers, department heads, and bureau chiefs become committed to their own domain and seek to protect and enhance their unit's parochial interests. Tensions between centripetal forces from the top and centrifugal forces from middle management are especially prominent in divisional structures but are critical issues in any restructuring effort.

The technostructure exerts pressures to standardize; analysts want to measure and monitor the organization's progress against well-defined criteria. Depending on the circumstances, they counterbalance (or complement) top administrators, who want to centralize, and middle managers, who seek greater autonomy. A college professor who wants to use a Web-based simulation game, for example, may find that it takes weeks or months to negotiate the rules and procedures that the university's information technology units have put in place. Issues that seem critical to IT may seem like trivial annoyances to the professor and vice-versa. Technocrats feel most at home in a machine bureaucracy.

The support staff pulls in the direction of greater collaboration. Its members usually feel happiest when authority is dispersed to small work units. There they can influence, directly and personally, the shape and flow of everyday work and decisions. In one university, a new president created a new governance structure that, for the first time, included support staff along with faculty and administrators. The staff loved it, but when they came up with a proposal for improvements to the promotion and tenure process, the faculty was not amused. Meanwhile, the operating core seeks to control its own destiny and minimize influence from the other components. Its members often look outside—to a union or to their professional colleagues—for support.

Attempts to restructure must acknowledge the natural tensions among these competing interests. Depending on the configuration, any component may have more or less influence on the final outcome. In a simple structure, the boss has the edge. In machine bureaucracies, the techno structure and strategic apex possess the most clout. In professional bureaucracies, chronic conflict between administrators and professionals is the dominant tension, while members of the techno structure play an important role in the wings. In the adhocracy, a variety of actors can play a pivotal role in shaping the emerging structural patterns.

Beyond internal negotiations a more crucial issue lurks. A structure's effectiveness ultimately depends on its fit with the organization's strategy, environment, and technology. Natural selection weeds out the field, determining survivors and victims. The major players must negotiate a structure that meets the needs of each component and still enables the organization to survive, if not thrive.

Why Restructure?

Restructuring is a challenging process that consumes time and resources with no guarantee of success, as the BBC and Harvard cases at the beginning of the chapter illustrate. Organizations typically embark on that path when they feel compelled to respond to major problems or opportunities. Various pressures can lead to that conclusion:

- *The environment shifts.* At American Telephone & Telegraph, once the telephone company for most of the United States, a mandated shift from regulated monopoly to a market with multiple competitors required a massive reorganization of the Bell System that played out over decades. When AT&T split off its local telephone companies into regional "Baby Bells," few anticipated that eventually one of the children (Southwest Bell) would swallow up the parent and appropriate its identity.
- *Technology changes.* The aircraft industry's shift from piston to jet engines profoundly affected the relationship between engine and airframe. Some established firms faltered because they underestimated the complexities; Boeing rose to lead the industry because it understood the issues (Henderson and Clark, 1990).
- *Organizations grow.* Digital Equipment thrived with a very informal and flexible structure during the company's early years, but the same structure produced major problems when it grew into a multibillion-dollar corporation.
- *Leadership changes.* Reorganization is often the first initiative of new leaders. It is a way for them to try to put their stamp on the organization, even if no one else sees a need to restructure.

Miller and Friesen (1984) studied a sample of successful as well as troubled firms undergoing structural change and found that those in trouble typically fell into one of three configurations:

- *The impulsive firm:* A fast-growing organization, controlled by one individual or a few top people, in which structure and controls have become too primitive and the firm is increasingly out of control. Profits may fall precipitously, and survival may be at stake.

Many once-successful entrepreneurial organizations stumble at this stage because they have failed to evolve beyond their simple structure.

- *The stagnant bureaucracy*: An older, tradition-dominated organization with an obsolete product line. A predictable and placid environment has lulled everyone to sleep, and top management is slavishly committed to old ways. Management thinking is too rigid or information systems are too primitive to detect the need for change, and lower-level managers feel ignored and alienated. Many old-line corporations and public agencies fit into this group of faltering machine bureaucracies.
- *The headless giant*: A loosely coupled, divisional organization that has turned into a collection of feudal baronies. The strategic apex is weak, and most of the initiative and power resides in autonomous divisions. With little strategy or leadership at the top, the firm is adrift. Collaboration is minimal because departments compete for resources. Decision making is reactive and crisis-oriented. WorldCom is an example of how bad things can get in this situation. CEO Bernie Ebbers built the company rapidly from a tiny start-up in Mississippi to a global telecommunications giant through some 65 acquisitions. But “for all its talent in buying competitors, the company was not up to the task of merging them. Dozens of conflicting computer systems remained, local network systems were repetitive and failed to work together properly, and billing systems were not coordinated. ‘Don’t think of WorldCom the way you would of other corporations,’ said one person who has worked with the company at a high level for many years. ‘It’s not a company, it’s just a bunch of disparate pieces. It’s simply dysfunctional’” (Eichenwald, 2002, p. C-6).

Miller and Friesen (1984) found that even in troubled organizations, structural change is episodic: Long periods of little change are followed by brief episodes of major restructuring. Organizations are reluctant to make major changes because a stable structure reduces confusion and uncertainty, maintains internal consistency, and protects the existing equilibrium. The price of stability is a structure that grows increasingly misaligned with the environment. Eventually, the gap gets so big that a major overhaul is inevitable. Restructuring, in this view, is like spring cleaning: We accumulate debris over months or years until we are finally forced to face up to the mess.

Making Restructuring Work: Three Case Examples

In this section, we look at three case examples of restructuring. Some represent examples of reengineering, which rose to prominence in the 1990s as an umbrella concept for emerging trends in structural thinking. Hammer and Champy promised a revolution in how

organizations were structured: “When a process is reengineered, jobs evolve from narrow and task oriented to multidimensional. People who once did as they were instructed now make choices and decisions on their own instead. Assembly-line work disappears. Functional departments lose their reason for being. Managers stop acting like supervisors and behave more like coaches. Workers focus more on customers’ needs and less on their bosses’ whims. Attitudes and values change in response to new incentives. Practically every aspect of the organization is transformed, often beyond recognition” (1993, p. 65).

More than half of all Fortune 500 companies jumped on the reengineering bandwagon in the mid-1990s, but only about a third of those efforts were successful. Champy admitted in a follow-up book, *Reengineering Management* (1995), that reengineering was in trouble, and attributed the shortfall to flaws in senior management thinking.

Some reengineering initiatives have indeed been catastrophic, a notorious example being the long-haul bus company Greyhound Lines. As the company came out of bankruptcy in the early 1990s, a new management team announced a major reorganization, with sizable cuts in staffing and routes and development of a new, computerized reservation system. The initiative played well on Wall Street, where the company’s stock soared, but poorly on Main Street as customer service and the new reservations system collapsed. Rushed, underfunded, and insensitive to both employees and customers, it was a textbook example of how not to restructure. Eventually, Greyhound’s stock crashed, and management was forced out. One observer noted wryly, “They reengineered that business to hell” (Tomsho, 1994, p. A1). Across many organizations, reengineering was a cover for downsizing the workforce, often with disappointing results.

Nevertheless, despite the many disasters, there have also been examples of notable restructuring success. Here we discuss three of them, drawn from different eras and industries.

Citibank’s Back Room

The “back room” at Citibank—charged with processing checks and other financial instruments—was in trouble when John Reed took charge in 1970 (Seeger, Lorsch, and Gibson, 1975). Productivity was down, errors were frequent, and expenses were rising almost 20 percent every year. Reed soon determined that the area needed dramatic structural change. Traditionally, the department was a service for the bank’s customer-contact offices, structured as a machine bureaucracy. Reed decided to think of it as an independent factory—a free-standing, high-volume production facility. He imported high-level executives from the automobile industry. One was Robert White, who came from Ford to become the primary architect of the new structure for the back room.

White began by cutting costs, putting in new computer systems, and developing a financial control system to forecast and measure performance. In effect, the strategy tightened the machine bureaucracy. Later on, White concluded that “we hadn’t gone back to the basics enough. We found that we did not really understand the present processes completely” (Seeger, Lorsch, and Gibson, 1975, p. 8).

They embarked on a detailed study of how the back room’s processes worked and developed a detailed flowchart. This helped them realize that the current structure was, in effect, one very large functional pipeline. Everything flowed into “preprocessing” at the front end of the pipe, then to “encoding,” and on through a series of functional areas until it eventually came out at the other end. Reed and White decided to break the pipe into several smaller lines, each carrying a different “product” and supervised by a single manager with responsibility for an end-to-end process. The key insight was to change the structure from machine bureaucracy to a divisionalized form. Along with the change, White instituted extensive performance measures and tight accountability procedures—69 quality indicators and 129 different standards for time lines.

As Mintzberg’s model predicts, the operating core strongly resisted this intrusion. Reed and White implemented the new structure virtually overnight, and the short-term result was chaos and a major breakdown in the system. It took two weeks to get things working again, and five months to recover from the problems generated by the transition. Once past that crisis, the new system dramatically improved operating results: Production was up; costs and errors were down. The back room became a major source of competitive advantage.

The Citibank restructuring was strongly driven from the top down and focused primarily on internal efficiencies. This has been true of many, but by no means all, restructuring efforts.

Beth Israel Hospital

Boston’s Beth Israel Hospital illustrates a health care restructuring effort that sought to move toward greater autonomy and teamwork. When Joyce Clifford became Beth Israel’s director of nursing, she found a top-down pyramid common in many hospitals:

The nursing aides, who had the least preparation, had the most contact with the patients. But they had no authority of any kind. They had to go to their supervisor to ask if a patient could have an aspirin. The supervisor would then ask the head nurse, who would then ask a doctor. The doctor would ask how long the patient had been in pain. Of course, the head nurse had absolutely no idea, so she’d have to track down the aide to ask her, and then relay that information back to the doctor. It was ridiculous, a ludicrous and dissatisfying situation, and one in which it was impossible for the nurse to feel any satisfaction at all. The system was hierarchical, fragmented, impersonal, and [overmanaged] (Helgesen, 1995, p. 134).

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Within units, responsibilities of nurses were highly specialized: some were assigned to handling medications, others to monitoring vital signs, still others to taking blood pressure readings. Add to the list specialized housekeeping roles—bedpan, bed making, and food services. A patient received repeated interruptions from virtual strangers. No one really knew what was going on with any individual patient.

Clifford instituted a major structural revamp, changing a pyramid with nurses at the bottom to an inclusive web with nurses at the center. The concept, called primary nursing, places each patient in the charge of a primary nurse. The nurse takes information upon admission, develops a comprehensive care plan, assembles a team to provide round-the-clock care, and lets the family know what to expect. A nurse manager sets goals for the unit, deals with budget and administrative matters, and makes sure that primary nurses have ample resources to provide quality care.

As the primary nurses assumed more responsibility, connections with physicians and other hospital workers needed reworking. Instead of simply carrying out physicians' orders, primary nurses became professional partners, attending rounds and participating as equals in treatment decisions. Housekeepers reported to primary nurses rather than to housekeeping supervisors. Housekeepers assigned to specific patients made the patient's bed, attended to the patient's hygiene, and delivered food trays. Laundry workers brought in clean items on demand rather than making a once-a-day delivery. Sophisticated technology gave all personnel easy access to patient information and administrative data.

Primary nurses learned from performing a variety of heretofore menial tasks. Bed making, for example, became an opportunity to evaluate a patient's condition and assess how well a treatment plan was working. Joyce Clifford's role also transformed, from top-down supervisor to web-centered coordinator:

A big part of my job is to keep nurses informed on a regular basis of what's going on out there—what the board is doing, what decisions are confronting the hospital as a whole, what the issues are in health care in this country. I also let them know that I'm trying to represent what the nurses here are doing—to our vice-presidents, to our board, and people in the outside world . . . to the nursing profession and the health care field as a whole (Helgesen, 1995, p. 158).

Beth Israel's primary nursing concept, initiated in the mid-1970s, produced significant improvement in both patient care and nursing morale. Nursing turnover declined dramatically (Springarn, 1982), and the model's success made it highly influential and widely copied both in the United States and abroad. But even successful change won't work forever. Over the years, changes in the health care system put Beth Israel's model under increasing pressure. More patients with more problems but shorter hospital stays made nurses' jobs much harder at the same time that cost pressures forced reductions in nursing staff. Beth Israel chose to update its approach by creating interdisciplinary "care teams." Instead of assembling an ad hoc collection of care providers for each new patient, ongoing teams of nurses, physicians, and support staff provided interdisciplinary support to primary nurses (Rundall, Starkweather, and Norrish, 1998).

Ford Motor Company

In 2006, after Ford Motor Company chalked up a \$13 billion loss, Chairman William Ford III concluded that the way to save the company his great-grandfather had founded was to hire a strong and experienced outsider who could take on the entrenched mind-sets and infighting among executives and divisions at Ford. He took a gamble on a noncar guy, Alan Mulally, an engineer with a long career at Boeing and a reputation for turning around struggling businesses.

Arriving at Ford, Mulally encountered many surprises. Bureaucracy was so entrenched and top-down that it was considered bad form for a subordinate to invite a superior to lunch. Ford was struggling, but no one wanted to admit it, so executives brought thick books of minutiae to meetings, using a flurry of details to obfuscate problems or shift blame to someone else. They resorted to doublespeak to avoid admitting that they didn't know the answers to questions.

Mulally soon concluded that Ford needed a major overhaul of a "convoluted management structure riddled with overlapping responsibilities and tangled chains of command" (Hoffman, 2012, p. 142). He flattened the hierarchy, cut out two layers of senior management, and increased his number of direct reports. He sold off secondary brands like Volvo and Land Rover and streamlined Ford's product line to aim for fewer models with higher quality. He implemented what had worked at Boeing: a matrix structure that crisscrossed the already-strong regional organizations with upgraded global functional units. So, for example, the head of communications or purchasing in Ford Europe would report to both the regional president in Europe and to a corporate vice-president back at headquarters in the United States.

Mulally believed this structure would bring the balance Ford needed: "It made each business unit fully accountable, but also made sure that each key function, from purchasing to product development, was managed globally in order to maximize efficiencies and economies of scale" (Hoffman, 2012, p. 143). He emphasized teamwork, collaboration across divisions, and an end to blaming, hiding mistakes, and hoarding cost figures. Division presidents were instructed to act as one company, not as airtight silos.

It worked. After losing market share for 13 straight years, Ford gained share in 2009, turned a profit in 2010, and achieved its highest profits in more than a decade in 2011. Mulally turned 65 in 2011 amid speculation about when he would retire. Board chair William Ford III expressed the hope that he would stay forever, but Mulally chose to retire two years later in 2014.

Principles of Successful Structural Change

Too many efforts to change structure fail. The Citibank, Beth Israel, and Ford Motor Company initiatives succeeded by following several basic principles of successful structural change:

- They did the hard work of carefully studying the existing structure and process so that they fully understood how things worked—and what wasn't working. (Many efforts at structural change fail because they start from an inadequate picture of current roles, relationships, and processes.)

- The change architects developed a new conception of the organization's goals and strategies attuned to the challenges and circumstances of the time.
- They designed the new structure in response to changes in strategy, technology, and environment.
- Finally, they experimented as they moved along, retaining things that worked and discarding those that did not.

CONCLUSION

At any given moment, an organization's structure represents its best effort to align internal activities with outside pressures and opportunities. Managers work to juggle and resolve enduring organizational dilemmas: Are we too loose or too tight? Are employees under-worked or overwhelmed? Are we too rigid, or do we lack standards? Do people spend too much or too little time harmonizing with one another? Structure represents a resolution of contending claims from various groups.

Mintzberg differentiates five major components in organizational structure: strategic apex, middle management, operating core, techno structure, and support staff. These components configure in unique designs: machine bureaucracy, professional bureaucracy, simple structure, divisionalized form, and adhocracy. Helgesen adds a less hierarchical model, the web of inclusion.

Changes, whether driven from inside or outside, eventually require some form of structural adaptation. Restructuring is a sensible but high-risk move. In the short term, structural change invariably produces confusion and resistance; things get worse before they get better. In the end, success depends on how well the new model aligns with environment, task, and technology. It also hinges on the route taken in putting the new structure in place. Effective restructuring requires both a fine-grained, microscopic assessment of typical problems and an overall, topographical sense of structural options.