CHAPTER 13

DECISION RIGHTS: BUNDLING TASKS INTO JOBS AND SUBUNITS

CHAPTER SUMMARY

This chapter is the second of two on the assignment of decision rights. It analyzes the bundling of tasks into jobs and jobs into the basic subunits of the firm, and discusses recent trends in the assignment of decision rights. The appendix presents a game-theoretic example of some of the issues that arise in coordinating functional managers.

CHAPTER OUTLINE

BUNDLING TASKS INTO JOBS
   Specialized versus Broad Task Assignment
      Benefits of Specialized Task Assignment
         Exploiting Comparative Advantage
         Lower Cross-Training Expenses
         Historical Application: Adam Smith on the Economies of Specialization
      Costs of Specialized Task Assignment
         Forgone Complementarities across Tasks
         Coordination Costs
         Functional Myopia
         Reduced Flexibility
   Incentive Issues
   Productive Bundling of Tasks
      Managerial Application: Regulation Limits Bundling of Tasks

BUNDLING OF JOBS INTO SUBUNITS
   Grouping Jobs by Function
      Managerial Application: Concentrating on Functions at Cadillac
   Grouping Jobs by Product or Geography
      Managerial Application: H-P Combines Two Operating Divisions
   Trade-offs between Functional and Product or Geographic Subunits
      Benefits of Functional Subunits
      Problems with Functional Subunits
      Benefits of Product or Geographic Subunits
      Problems with Product or Geographic Subunits
   Managerial Application: Citigroup Reorganizes to Control Conflicts
   Where Functional Subunits Work Best
   Environment, Strategy, and Architecture
   Matrix Organizations
      Managerial Application: Intel Corporation—A Matrix Organization
   Mixed Designs
   Network Organization
   Organizing within Subunits
RECENT TRENDS IN ASSIGNMENTS OF DECISION RIGHTS
Managerial Application: An Executive Perspective on Increased Foreign Competition
Historical Application: F.W. Taylor on Iron Workers
Managerial Application: The Importance of Informal Communications

SUMMARY
APPENDIX: BATTLE OF THE FUNCTIONAL MANAGERS

TEACHING THE CHAPTER

A key point in the chapter is that jobs can either be grouped by function, by product, or matrixed. It is important for students to recognize that there is a trade-off with any grouping. Grouping jobs into a subunit enhances coordination and learning among people within the subunit but comes at the cost of reduced coordination and learning among people within the group and other subunits of the firm. The material in the chapter is not particularly technical in nature, but it is important that students clearly understand the differences between the groupings that can be used. Rather than relying on extensive lecturing in this chapter, the Review Questions at the end of the chapter, which cover both definitions and application of the concepts in the chapter, can be used to generate class discussion to cover the material. Lecture can then be used to clarify any remaining questions. There are several interesting Managerial Applications in the chapter that can also be used to motivate class discussion. In particular, the Citigroup reorganization emphasizes some considerations that are not raised as prominently elsewhere in the chapter. Why are some tasks acceptable to bundle and yet others should be separate?

It is important that students understand that this chapter is not a “how-to” description that will tell them which type of structure is appropriate in every situation, but rather is designed to give them the tools to look at a situation and assess what the impact would be if different organizational structures were chosen. The Managerial Applications should be used to illustrate the pros and cons of the different structures. It would be useful to review Chapters 12 and 13 once they have both been completed in class and to refer back to the importance of decision-right assignment in organizational architecture. One way to review these concepts would be to ask students to consider their own experiences with different forms of organizational structure. The appendix extends the analysis of the chapter by illustrating how game theory can be used to describe the tradeoffs experienced under different organizational structures.

There are two Analyzing Managerial Decisions scenarios presented in this chapter. The first, “Jog PCS”, asks students to review the different forms of organization that could be chosen and to restructure the company based on these possibilities. Students are also asked to review the pros and cons of these different organizational options. The second “Bagby Copy Company”, is comprehensive in nature asking students to consider not only the form of organization that could be chosen but also reviews the difference between specialized and broad task assignment. What are the tradeoffs associated with different assignments?
The textbook authors have suggested *Pepsi-Cola U.S. Beverages (A)* (Harvard Business School case #9-390-034) as a good case to illustrate the concepts in the chapter (as well as Chapter 12). They also offer the following teaching tips for the case. At the time of the case, Pepsi Worldwide beverages is organized around products, which is causing them problems given changes in their environment and strategy. They are choosing between a fully decentralized option, organized around regions, and a matrix organization. Three teams can be asked to make presentations to the class. One group can present arguments in favor of staying with the current structure, a second group can argue for the matrix organization, while a third group can present arguments for the decentralized option. The rest of the class can then discuss their views. Part (B) of the case indicates that Pepsi opted for the matrix organization. This part can be summarized at the end of the class. (See the Solutions Manual for the answers to these problems).

**REVIEW QUESTIONS**

13–1. Discuss the costs and benefits of specialized task assignment relative to broad task assignment. What variables are likely to be particularly important in determining the optimal choice between these two alternatives?

The benefits of specialized task assignment include: (1) Exploiting comparative advantage: The firm can match people with jobs based on skills and training and let people concentrate on their specialties. (2) Lower cross-training expenses. (3) Relative ease at motivating employees to perform a narrow set of tasks (there is less of a multi-task principal/agent problem). The costs of specialized task assignment include: (1) Lost complementarities from performing a few functions: Sometimes performing one task lowers the cost of performing another task. These cost savings are not realized with specialized task assignment. (2) Functional myopia: Employees will tend to concentrate on their own functions rather than the overall process of producing a product. (3) Reduced flexibility: Not cross training employees has costs, as well as benefits. (4) Difficulties in output measurement: While it is often easier to motivate people to perform a narrow set of tasks, this is not always the case. Sometimes producing an output requires the coordinated execution of several separate tasks. Overall performance in terms of producing the output might be observed; however, it might be difficult to measure performance on the individual tasks. One variable that is likely to be particularly important in determining the choice between task assignments is the relative degree of complementarity among versus across functional areas. Specialized task assignment is likely to be preferred when the complementarities are relatively high within a functional area.
13–2. Define the following: functional organizations, product organization, geographic organization, matrix organization, and network organization.

Functional organizations group jobs by functional specialty (engineering, design sales, finance, and so on); product and geographic organizations group jobs around product and geography, respectively; matrix organizations are characterized by intersecting lines of authority (they maintain functional departments but form teams based on product, geography, or customer); network organizations are divided into work groups where the relationship among groups is fluid and flexible (determined by the demands of specific projects and activities) and change frequently with changes in the business environment.

13–3. Discuss the circumstances under which you think functional organizations will work best.

Functional grouping is likely to work best in small firms with a limited number of products. Also it is likely to work best in companies that face a slow rate of technological change and otherwise stable environments. Firms with these characteristics can coordinate effectively across functions with rules and procedures. Also central management is more likely to have the specific knowledge to play a major role in coordination.

13–4. Discuss the pluses and minuses of matrix organizations.

The advantage of matrix organization, relative to functional or product organization, is that it emphasizes both functional excellence and product coordination. Potential problems with the matrix organization arise from the intersecting lines of authority. Specifically, it can be difficult to design effective performance evaluation and reward systems.

13–5. Why do you think many US firms have reorganized their international divisions from a country focus to matrix organizations focusing on both country and product?
Grouping all the activities within a country under one manager is likely to promote the use of specific knowledge about that country in decision making. For example, the country manager might use specific knowledge about consumer preferences in the design of particular products; knowledge about local taxes and regulation can be important. Country managers can be provided strong incentives for making them responsible for profit and loss within their given territory. The drawback of organizing solely around country is it does little to promote coordination and information sharing within product lines across country borders. In the past when market areas were relatively defined by country boundaries (due to taxes, tariffs and regulation), the advantages of country organization were more likely to have been larger than the costs. As country barriers break down it is more important to coordinate decisions within a product line. For example, a multinational buyer does not want to have to negotiate with 50 country managers over product price. Also to the extent that tastes are becoming more uniform across countries, there are stronger reasons to exploit economies of scale in production. Given it is important to promote coordination and information use both within a product line and a given country, a matrix organization appears to make sense to many companies at the present time.

13–6. In the early 1990s, Chrysler Corporation placed nearly all decisions about the development of a new vehicle in the hands of a single, cross-functional product team. In contrast, General Motors used an approach that placed a stronger emphasis on functional specialties. Small teams were established that consisted of experts from the same functional field. Each team was charged with a particular assignment that related to its area of specialization. For example, one team might have had the primary responsibility for the design of the body of the vehicle, whereas another team might have been charged with developing the drive train. The teams worked simultaneously on their specific tasks. Some individuals on these teams also served on additional cross-functional teams that were charged with coordinating the development process across the functional areas. Discuss the relative advantages and disadvantages of these two approaches to product development.

Advantages to the Chrysler form:

- Single focus: on the product, the process, the customer.
- Better communication among team-members.
- Might result in faster turnaround time (seems to empirically).

Problems with the Chrysler form:

- Less technical expertise (less direct communication across functional experts).
Potential free-rider problems (because of the comparatively large team size).

Less natural career progression.

Advantages of the GM form:

Greater functional expertise brought to bear on any problem (because several experts from each functional area cooperate).

Smaller teams mean better control of the free-rider problem.

Problems with the GM form:

Less effective communication across functions (for example, the tail-light may not fit the space created for it if these are made by different teams).

Functional, rather than customer or product focus.

Potential conflicts due to inter-connecting lines of authority (are the incentives of individuals on the cross-functional teams aligned with their functional departments or with these teams?).

In short, the tradeoff is between the technical expertise of the GM form and the better functional coordination of the Chrysler form.

13–7. Johnson & Johnson (J&J) is one of the largest medical products companies in the world. In 1994, it had 33 major lines of business, with 168 operating companies in 53 countries. Decision rights in J&J were quite decentralized. For instance, in 1993 the baby oil manager in Italy ran his own factory and got to decide such things as package size, pricing, and advertising. Similarly, other country managers had considerable discretionary authority for similar products sold in their countries. This type of decentralized decision making has served J&J well: Its returns to shareholders have been very good. Significant changes, however, are occurring in J&J’s environment. In particular, trade barriers have been significantly reduced in Europe.

a. Describe the advantages of J&J's decentralized decision making that have helped to explain the success of the company.

Country-specific knowledge about consumer tastes, customs, laws, competitors, and so forth, is often very important. J&J’s organization structure assigns decision rights to individuals with this knowledge. Performance evaluation and compensation can be based on country-unit performance to provide appropriate incentives to use the information.
b. What organizational changes do you think J&J should consider given the change in the environment? Explain. Draw a new organizational chart for J&J’s international operations (based on your suggestions).

The organizational structure probably needs to be changed to give regional product managers more power (cutting across countries). As trading across borders increases it becomes more important to coordinate advertising, pricing, packaging, and so forth, for given products. Also multinational customers are going to want to deal with one company contact, not many separate country managers. Nevertheless, country knowledge is likely to remain important. One option is a matrix organization which gives overlapping authority to country and product managers. It is important to consider reinforcing changes in the performance evaluation and reward systems. See Figure 13.4 for an organizational chart for a matrix organization.

13–8. AutoMart Repair Shop is currently organized as follows: a repair manager meets with the customer to discuss the problems with the car. A repair order is completed. The mechanics specialize in particular types of repairs (for example, air conditioning, body work, etc.). Typically, a car in the shop requires work by several specialists. The manager plans the sequence of service among the specialists. The car is then serviced by each of the necessary specialists in turn. Discuss how AutoMart’s Repair Shop might look if it reorganized around the process of fixing an automobile. Discuss the pluses and minuses of the current structure compared to the more product-oriented structure.

Process organization: A team of employees with the necessary skills would be assigned to fix each car. The team would be responsible for all the necessary tasks, including logging the initial job, planning the work, repairing the automobile, completing the bill, etc. (If the jobs are relatively small all the tasks could be assigned to one employee who is cross trained to perform all the various tasks.)

Advantages of current structure:

- The structure helps to promote effective coordination within each functional specialty. For instance, a supervisor in the body shop area can assign employees tasks based on their current work load and expertise. It is also relatively easy for the specialists to share information on how to fix particular problems.
- The structure helps to promote expertise in the specialty areas.
- There are other potential economies from specialization — people can become more efficient at a task if they repeat it many times.
Disadvantages of current structure:

- Transfers between specialists can take time.
- There can be significant coordination/information problems across the specialists. For instance, the customer might indicate to the first person what is wrong; however, the problem may not be communicated adequately to the specialist who works on the problem.
- Management time is spent coordinating the various specialists.

13–9. Many companies are making increased use of telecommuting, which consists of employees working out of their homes, linked to the central office by telephone, computer, and fax machine. Discuss the benefits and costs of telecommuting. What types of occupations are likely to be best suited for telecommuting? Explain why.

Telecommuting can reduce the time people spend commuting to offices. To the extent that people do not like to commute, this change reduces the compensating differential that must be paid to employees. Paying someone implicitly for having an office in the home might be cheaper than paying for higher-priced real estate in the central business district. The company might be able to select from a broader applicant pool (for instance, some parents might be willing to work out of the home but not at a central office).

Telecommuting is associated with at least two problems. First, the sharing of information is less likely if people do not work in close proximity to each other — potential synergies from team production might be lost. Second, there is the problem of incentives. How does the firm know the employee is working? Monitoring is more difficult.

You expect to see telecommuting in occupations where the output is more easily measured (then incentive compensation can be used to motivate employees in the absence of direct monitoring). Also you would expect to see telecommuting in occupations where team production and information sharing is relatively unimportant. Certain sales positions are likely to meet both criteria and are indeed popular occupations for telecommuting. We discuss these issues in greater detail in the appendix of chapter 15.

13–10. Evaluate the following statement: “It is usually best to organize as a matrix organization. Matrix organizations combine the best of both worlds, functional excellence and product focus.”

The advantage of Matrix organizations is that they do combine functional and product focus. The quote, however, ignores the downside of Matrix organizations. The biggest problem is the intersecting lines of authority. Workers report to both functional and product managers. Getting the incentives right can be a significant problem.
13–11. Stable Inc. is in a relatively stable environment in terms of technology, competition, and regulation. Variance Inc. is in a relatively unstable environment with more frequent changes in technology, competition, and regulation. Both produce the same number of products. Which firm is more likely to be functionally organized? Explain why.

Stable Inc. is more likely to be functionally organized. Functional organization promotes economies of scale within a function and functional expertise. The downside is that there is a problem of communicating across functions. This communication problem is easier to handle in stable environments. Rules for coordinating the functions can be adopted and can work fairly well in stable environments. In rapidly changing environments it is more important to have good communication across functional lines. For example, people in sales may need to provide information to design engineers about changes in consumer demands, etc. Here, a product organization or a matrix is more likely to be optimal.

13–12. Professors Brickley and Smith are writing two chapters for a new book. Two primary tasks are involved. First, someone has to write each of the chapters. Second, someone has to copyedit the chapters. The second step involves making sure that the writing is good, that there are no typographical errors, etc. They are considering two alternative ways to organize the work. In one case, one of the professors would write both chapters, and the other professor would copyedit both chapters. In the other case, each professor would select one chapter and be responsible for all writing and copyediting. The two professors have equal abilities and knowledge. Discuss the trade-offs between these two methods of organizing the work. What factors do you think will be most important in deciding how to organize?
There may be economies of scale in having the professors specialize in writing and copyediting. For instance, given training and learning costs it might be less expensive to have one professor copyedit both chapters rather than to split the task. There might also be other complementarities from specializing functionally. For instance, if coordinating the content and organization of the two chapters is important, it might make sense to have one professor write both chapters. On the other hand, specializing by chapter might result in lower costs since copyediting is potentially easier if you have written the chapter yourself (e.g., if the typesetter makes a mistake, you might be more likely to catch the mistake if you wrote the chapter). Incentive issues are also present. For instance, making individuals solely responsible for a given chapter might reduce free-rider problems that arise from teaming up on each chapter. If the chapter is perceived as bad the reputation costs will be borne by the author. On the other hand, splitting by functions gives one professor the right to monitor the other’s writing. The optimal organizational arrangement involves a trade-off among these types of considerations. Specializing by chapter seems to make the most sense when the benefits of coordinating content across chapters are low. Here the incentive effects of the individuals “owning” the chapters will often be larger than the benefits of specialization (especially since the professors have equal skills). The other factors mentioned above, however, are also relevant.