

4.3.8: Summary



Key Terms

Adhocracy culture

Creates an environment of innovating, visioning the future, accepting of managing change, and risk taking, rule-breaking, experimentation, entrepreneurship, and uncertainty.

Clan culture

Focuses on relationships, team building, commitment, empowering human development, engagement, mentoring, and coaching.

Competing Values Framework

Developed by Kim Cameron and Robert Quinn this model is used for diagnosing an organization's cultural effectiveness and examining its fit with its environment.

Complex-Stable environments

Environments that have a large number of external elements, and elements are dissimilar and where elements remain the same or change slowly.

Complex-Unstable environments

Environments that have a large number of external elements, and elements are dissimilar and where elements change frequently and unpredictably

Corporate culture

Defines how motivating employees' beliefs, behaviors, relationships, and ways they work creates a culture that is based on the values the organization believes in.

Divisional structure

An organizational structure characterized by functional departments grouped under a division head.

Domain

The purpose of the organization from which its strategies, organizational capabilities, resources, and management systems are mobilized to support the enterprise's purpose.

Functional structure

The earliest and most used organizational designs.

Geographic structure

An Organizational option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves.

Government and political environment forces

The global economy and changing political actions increase uncertainty for businesses, while creating opportunities for some industries and instability in others.

Hierarchy culture

Emphasizes efficiency, process and cost control, organizational improvement, technical expertise, precision, problem solving, elimination of errors, logical, cautious and conservative, management and operational analysis, careful decision making.

Horizontal organizational structures

A “flatter” organizational structure often found in matrix organizations where individuals relish the breath and development that their team offers.

Internal dimensions of organizations

How an organization’s culture affects and influences its strategy.

Market culture

Focuses on delivering value, competing, delivering shareholder value, goal achievement, driving and delivering results, speedy decisions, hard driving through barriers, directive, commanding, competing and getting things done

Matrix structure

An organizational structure close in approach to organic systems that attempt to respond to environmental uncertainty, complexity, and instability.

McKinsey 7-S model

A popular depiction of internal organizational dimensions.

Mechanistic organizational structures

Best suited for environments that range from stable and simple to low-moderate uncertainty and have a formal “pyramid” structure.

Natural disaster and human induced environmental problems

Events such as high-impact hurricanes, extreme temperatures and the rise in CO2 emissions as well as ‘man-made’ environmental disasters such as water and food crises; biodiversity loss and ecosystem collapse; large-scale involuntary migration are a force that affects organizations.

Networked-team structure

A form of the horizontal organization.

Organic organizational structures

The opposite of a functional organizational form that works best in unstable, complex changing environments.

Organizational structures

A broad term that covers both mechanistic and organic organizational structures.

Simple-Stable environments

Environments that have a small number of external elements, and elements are similar, and the elements remain the same or change slowly.

Simple-Unstable environments

Environments that have a small number of external elements, and elements are similar and where elements change frequently and unpredictably.

Socio-cultural environment forces

Include different generations’ values, beliefs, attitudes and habits, customs and traditions, habits and lifestyles.

Technological forces

Environmental influence on organizations where speed, price, service, and quality of products and services are dimensions of organizations’ competitive advantage in this era.

Virtual structure

A recent organizational structure that has emerged in the 1990's and early 2000's as a response to requiring more flexibility, solution based tasks on demand, less geographical constraints, and accessibility to dispersed expertise.

Summary of Learning Outcomes

4.2 The Organization's External Environment

1. Define the external environment of organizations

Organizations must react and adapt to many forces in their internal and external environments. The context of the firms such as size and geographic location impact how environmental forces affect each organization differently. An understanding of the forces and they currently affecting organizations and pressuring structural change is crucial.

4.3 External Environments and Industries

2. Identify contemporary external forces pressuring organizations

An understanding of the various industries and organizations 'fit' with different types of environment is crucial. There are small and large organizations that face environments that are either stable or unstable and managing the organization by recognizing their environment is a crucial skill.

4.4 Organizational Designs and Structures

3. Identify different types of organizational structures, and their strengths and weaknesses

An understanding of Mechanistic vs Organic Structures and Systems and how they differ and how these major concepts help classify different organizational structures is crucial to recognizing organizational structures. Finally, the issue of organizational complexity and its impact on organizational structure needs to be understood.

You should be able to discuss the evolution of different types of Organizational Structures. You should understand and identify the six types of organizational structures, and the advantages and disadvantages of each: Functional, Divisional, Matrix, Geographic, Networked Team, and Virtual.

4.5 The Internal Organization and External Environments

4. Explain how organizations organize to meet external market threats and opportunities

You should understand and identify the six types of organizational structures, and the advantages and disadvantages of each structure:

- Functional
- Divisional
- Matrix
- Geographic
- Networked Team
- Virtual

You should also understand why the internal dimensions of an organization matter with regard to how it fits with its external environment.

4.6 Corporate Cultures

5. Identify the fit between organizational cultures and the external environment

You should be able to identify and differentiate between the four types of organizational cultures and the fit of each with the external environment and describe the CVP framework. Finally, you can identify the internal dimensions of organizations, the interconnection among the dimensions, and how these affect the 'fit' with external environments.

4.7 Organizing for Change in the 21st Century

6. Identify environmental trends, demands, and opportunities facing organizations.

Among the trends in the external environment: (1) persistent inequality and unfairness, (2) domestic and international political tensions, (3) environmental dangers, and (4) cyber vulnerabilities. Another trend is that organizations will no longer solely be

judged only for their financial performance, or even the quality of their products or services. Rather, they will be evaluated on the basis of their impact on society at large—transforming them from business enterprises into social enterprises.

? Exercise 4.3.8.1

1. Explain how several current environmental forces are affecting and will affect organizations and organizational structures' effectiveness and efficiency in the near future?
2. What are ways to classify and describe how industries and organizations fit and do not fit with their external environments?
3. What are a few industries and/or organizations that are fitting well with their current environments? What are a few that are not? Why?
4. What are some major differences between organic and mechanistic organizational structures and systems?
5. Which organization would you work best in, an organically or mechanistically structured one, and why?
6. What are some advantages and disadvantages of functional structures?
7. Do you think it's true that every organization has a hidden functional structure in it? Explain your answer.
8. Why have functional structures been criticized for not accommodating new changes in the environment?
9. What are some advantages and disadvantages of divisional structures?
10. How is a product structure one type of a divisional structure? Explain.
11. What are some disadvantages in working in a matrix structure and why?
12. What advantages do matrix structures have compared to functional structures?
13. What advantages do geographic structures have compared to a functional structure?
14. What are issues that working in a networked team structure present?
15. In what ways is a virtual organization and structure different from the other ones discussed in the chapter?
16. What major trends discussed at the end of this chapter are different from previous external environments and the ways organizations were organized?
17. What purposes does an organization's culture serve when considering the external environment?
18. How does Exhibit 4.16 facilitate an understanding of how the internal organization functions with external environments?

Management Skills Application Exercises

1. You have just been assigned to lead a functionally structured organization. Explain what types of skills you would need to best perform this function.
2. What types of problems would you expect to have managing a divisionally structured organization? What skills would you need to excel in this undertaking?
3. If you were assigned to work in a matrix team structure, explain the issues and benefits you might expect to experience and why. What skills would help you in this function?
4. You have just been assigned to work with a strategy team in an organization to predict issues and opportunities that might be expected for the next 2 years. Using this chapter, explain what information you would provide to this team?
5. Use Exhibit 4.21, "The Competing Values Framework," to identify the type of organizational culture at IKEA, Home Depot, and Best Buy.

Managerial Decision Exercises

1. You are a manager working in a functionally structured organization. A disgruntled employee is complaining about problems she is having in that structure. Outline a way you would find out more about her complaints with regard to her being in this type of structure and some ways to assist her.
2. You are a manager working in a networked team structured organization. A disgruntled employee is complaining about problems he is having in that structure. Outline a way you would find out more about his complaints with regard to his being in this type of structure and some ways to assist him.
3. You have been selected to lead a team to decide on a different type of structure in your organization to better serve customers who are complaining about poor service that is slow, impersonal, and not meeting their needs to be heard. Presently, the functional structure isn't working well. Outline some information from your knowledge using this chapter that would help the team in its assignment.
4. You witness a senior executive at your firm engaging in overly aggressive methods of pressuring employees to increase their sales quotas beyond reasonable means. You are in a networked team structure that is partly a matrix. You are uncertain about whom to discuss this issue with. What would you do?

5. As a new graduate, you have been hired to help a medium-sized company come into the 21st century. Products need revamping, people aren't sharing information, and customers are gradually leaving. The firm has a traditional top-down managed, vertical hierarchy. It is believed that the firm has very good potential to sell its products, but new markets may be needed. Outline an agenda you would work on to research and make suggestions with regard to this chapter's focus and content.

Critical Thinking Case

Wells Fargo, Crisis and Scandal

The recent widespread scandal at Wells Fargo jolted and shocked the corporate world. How could such internal corrupt and outrageously illegal and unethical activities by professionals have occurred? Wells Fargo is "an American multinational financial services company headquartered in San Francisco, California" with offices nationwide and "the world's second-largest bank by market capitalization and the third largest bank in the U.S. by total assets." In September 2016 it was discovered that the company was continuing to create fake customer accounts to show positive financial activity and gains. 5,000 salespeople had created 2 million fake customer accounts to meet high-pressure internal sales goals, including a monthly report called the "Motivator."

The out-of-control sales leadership pressured sales employees to meet unrealistic, outrageous sales targets. Dramatically unrealistic sales goals propelled by continuous pressure from management coerced employees to open accounts for customers who didn't want or need them. "Some Wells Fargo bankers impersonated their customers and used false email addresses like noname@wellsfargo.com, according to a 2015 lawsuit filed by the city of Los Angeles."

The "abusive sales practices claimed in a lawsuit that Wells Fargo employees probably created 3.5 million bogus accounts" starting in May 2002. Wells Fargo is awaiting final approval to settle that case for \$142 million. However, regulators and investigations found that the misconduct was far more "pervasive and persistent" than had been realized. "The bank's culture of misconduct extended well beyond the original revelations." For example, regulators found that the company was (1) "overcharging small businesses for credit card transactions by using a 'deceptive' 63-page contract to confuse them." (2) The company also charged at least 570,000 customers for auto insurance they did not need. (3) The firm admitted that it found 20,000 customers who could have defaulted on their car loans from these bogus actions; (4) The company also had created over 3.5 million fake accounts attributed to customers who had no knowledge of such accounts.

Wells Fargo has had to testify before Congress over these charges, which have amounted to \$185 million dollars, and more recently the company has been ordered by regulators to return \$3.4 million to brokerage customers who were defrauded. The CEO and management team have been fired and had millions of dollars withheld from their pay.

In the aftermath of the scandal, even though Wells Fargo executives were not imprisoned for the extensive consumer abuses committed by the company, the CFPB (Consumer Financial Protection Bureau) and Office of the Comptroller of the Currency (OCC) imposed a \$1 billion fine on Wells Fargo for consumer-related abuses regarding auto loan and mortgage products. The OCC also forced the company to allow regulators the authority to enforce several actions to prevent future abuses, such as and including "imposing business restrictions and making changes to executive officers or members of the bank's board of directors." The new president of the company, Tim Sloan, stated, "What we're trying to do, as we make change in the company and make improvements, is not just fix a problem, but build a better bank, transform the bank for the future."

Sources: https://en.Wikipedia.org/wiki/Wells_Fargo; Pasick, Adam, "Warren Buffett Explains the Wells Fargo Scandal," *Quartz*, May 6, 2017. <https://qz.com/977778/warren-buffett...fargo-scandal/> <https://qz.com/977778/warren-buffett...fargo-scandal/>; Bloomberg, "The Wells Fargo Fake Accounts Scandal Just Got a Lot Worse," *Fortune*, August 21, 2017. fortune.com/2017/08/31/wells-...ount-estimate/; Horowitz, Julia, "'huge, huge, huge error' in Wells Fargo Handling of Ethics Line Calls," *CNN*, May, 6, 2017. money.cnn.com/2017/05/06/inv...ing/index.html; <http://money.cnn.com/2018/02/05/news...argo-timeline/index.html>; Wattles, Jackie, Grier, Ben, and Egan, Matt, "Wells Fargo's 17 Month Nightmare," *CNN Business*, February 5, 2018. <https://money.cnn.com/2018/02/05/new...ine/index.html>. Hudson, Caroline, "Wells Fargo Stocks Still Struggling in Wake of Scandal," *Charlotte Business Journal*, April 2, 2018. <https://www.bizjournals.com/charlott...in-wakeof.html>

Critical Thinking Questions

1. What happened at Wells Fargo with regard to past activities that led to this major scandal?
2. What internal dimensions of the company were part of the problems that occurred?
3. How might the organizational structure of the company have been part of the problems that occurred?
4. Identify and use relevant concepts from this chapter as well as your own thoughts and analysis to diagnose the scandal at Wells Fargo. How could such a scandal have occurred in the first place? Who and what was at fault?

5. Suggest some solution paths the company might consider, using knowledge from this chapter and your own thoughts/research, to avoid such a scandal from reoccurring.

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