7.9: Trends in Organizational Structure

8. What trends are influencing the way businesses organize?

To improve organizational performance and achieve long-term objectives, some organizations seek to reengineer their business processes or adopt new technologies that open up a variety of organizational design options, such as virtual corporations and virtual teams. Other trends that have strong footholds in today's organizations include outsourcing and managing global businesses.

Reengineering Organizational Structure

Periodically, all businesses must reevaluate the way they do business. This includes assessing the effectiveness of the organizational structure. To meet the formidable challenges of the future, companies are increasingly turning to **reengineering—** the complete redesign of business structures and processes in order to improve operations. An even simpler definition of reengineering is "starting over." In effect, top management asks, "If we were a new company, how would we run this place?" The purpose of reengineering is to identify and abandon the outdated rules and fundamental assumptions that guide current business operations. Every company has many formal and informal rules, based on assumptions about technology, people, and organizational goals, that no longer hold. Thus, the goal of reengineering is to redesign business processes to achieve improvements in cost control, product quality, customer service, and speed. The reengineering process should result in a more efficient and effective organizational structure that is better suited to the current (and future) competitive climate of the industry.

The Virtual Corporation

One of the biggest challenges for companies today is adapting to the technological changes that are affecting all industries. Organizations are struggling to find new organizational structures that will help them transform information technology into a competitive advantage. One alternative that is becoming increasingly prevalent is the **virtual corporation**, which is a network of independent companies (suppliers, customers, even competitors) linked by information technology to share skills, costs, and access to one another's markets. This network structure allows companies to come together quickly to exploit rapidly changing opportunities. The key attributes of a virtual corporation are:

- *Technology.* Information technology helps geographically distant companies form alliances and work together.
- *Opportunism.* Alliances are less permanent, less formal, and more opportunistic than in traditional partnerships.
- *Excellence.* Each partner brings its core competencies to the alliance, so it is possible to create an organization with higher quality in every functional area and increase competitive advantage.
- *Trust.* The network structure makes companies more reliant on each other and forces them to strengthen relationships with partners.
- *No borders.* This structure expands the traditional boundaries of an organization.

In the concept's purest form, each company that links up with others to create a virtual corporation is stripped to its essence. Ideally, the virtual corporation has neither a central office nor an organization chart, no hierarchy, and no vertical integration. It contributes to an alliance only its core competencies, or key capabilities. It mixes and matches what it does best with the core competencies of other companies and entrepreneurs. For example, a manufacturer would only manufacture, while relying on a product design firm to decide what to make and a marketing company to sell the end result.

Although firms that are purely virtual organizations are still relatively scarce, many companies are embracing several characteristics of the virtual structure. One example is Cisco Systems. Cisco uses many manufacturing plants to produce its products, but the company owns none of them. In fact, Cisco now relies on contract manufacturers for all of its manufacturing needs. Human hands probably touch fewer than 10 percent of all customer orders, with fewer than half of all orders processed by a Cisco employee. To the average customer, the interdependency of Cisco's suppliers and inventory systems makes it look like one huge, seamless company.

Virtual Teams

Technology is also enabling corporations to create virtual work teams. Geography is no longer a limitation when employees are considered for a work team. Virtual teams mean reduced travel time and costs, reduced relocation expenses, and utilization of specialized talent regardless of an employee's location.

When managers need to staff a project, all they need to do is make a list of required skills and a general list of employees who possess those skills. When the pool of employees is known, the manager simply chooses the best mix of people and creates the virtual team. Special challenges of virtual teams include keeping team members focused, motivated, and communicating positively despite their locations. If feasible, at least one face-to-face meeting during the early stages of team formation will help with these potential problems.

Exhibit 7.11 In today's high-tech world, teams can exist any place where there is access to the internet. With globalization and outsourcing being common strategies in business operations today, companies of all shapes and sizes utilize virtual teams to coordinate people and projects halfway around the world. Unlike coworkers in traditional teams, virtual team members rarely meet in person, working from different locations and continents. *What practical benefits do virtual teams offer to businesses, employees, and other members?*(Credit: ThoroughlyReviewed/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Outsourcing

Another organizational trend that continues to influence today's managers is outsourcing. For decades, companies have outsourced various functions. For example, payroll functions such as recording hours, managing benefits and wage rates, and issuing paychecks have been handled for years by third-party providers. Today, however, outsourcing includes a much wider array of business functions: customer service, production, engineering, information technology, sales and marketing, and more.

Historically, companies have outsourced for two main reasons: cost reduction and labor needs. Often, to satisfy both requirements, companies outsource work to firms in foreign countries. In 2017, outsourcing remains a key component of many businesses' operations but is not strictly limited to low-level jobs. Some of the insights highlighted in Deloitte's recent Global Outsourcing Survey bear this out. According to survey respondents from 280 global organizations, outsourcing continues to be successful because it is adapting to changing business environments. According to the survey, outsourcing continues to grow across mature functions such as HR and IT, but it has successfully moved to nontraditional business functions such as facilities management, purchasing, and real estate. In addition, some businesses view outsourcing as a way of infusing their operations with innovation and using it to maintain a competitive advantage—not just as a way to cut costs. As companies increasingly view outsourcing as more than a cost-cutting strategy, they will be expecting more of their vendors in terms of supplying innovation and other benefits.[17]

Another form of outsourcing has become prevalent over the last several years, in part as the result of the slow economic recovery from the global recession of 2007–2009. As many U.S. businesses hesitated to hire full-time workers even as they began to experience gradual growth, some companies began to offer contract work to freelancers, who were not considered full-time employees eligible for company benefits. Known as the *gig economy*, this work approach has advantages and disadvantages. Some gig workers like the independence of being self-employed, while others acknowledge that they are taking on multiple small projects because they can't find full-time work as company employees. Another group of individuals work as full-time employees but may sign up for gigs such as driving for Uber or Lyft to supplement their income. Recent estimates suggest that the gig economy may impact more than one-third of the U.S. workforce over the next few years.[18]

Despite the challenges, outsourcing programs can be effective. To be successful in outsourcing efforts, managers must do the following:

- Identify a specific business problem.
- Consider all possible solutions.
- Decide whether outsourcing the work is the appropriate answer to the problem.
- Develop a strategic outsourcing partnership with vendors and a solid framework that promotes seamless collaboration and communication.
- Engage with outsourcing partners on a regular basis to instill trust between the two entities.
- Remain flexible when it comes to working with outsourcing providers in terms of accommodating requests or adjusting needs when necessary in an effort to build a long-term strategic partnership beneficial to both parties.[19]

Structuring for Global Mergers

Recent mergers creating mega-firms (such as Microsoft and LinkedIn, Amazon and Whole Foods, and Verizon and Yahoo) raise some important questions regarding corporate structure. How can managers hope to organize the global pieces of these huge, complex new firms into a cohesive, successful whole? Should decision-making be centralized or decentralized? Should the firm be organized around geographic markets or product lines? And how can managers consolidate distinctly different corporate cultures? These issues and many more must be resolved if mergers of global companies are to succeed.

Beyond designing a new organizational structure, one of the most difficult challenges when merging two large companies is uniting the cultures and creating a single business. The merger between Pfizer and Pharmacia, makers of Dramamine and Rogaine, is no exception. Failure to effectively merge cultures can have serious effects on organizational efficiency.

As part of its strategic plan for the giant merger, Pfizer put together 14 groups that would make recommendations concerning finances, human resources, operation support, capital improvements, warehousing, logistics, quality control, and information technology. An outside consultant was hired to facilitate the process. One of the first tasks for the groups was to deal with the conqueror (Pfizer) versus conquered (Pharmacia) attitudes. Company executives wanted to make sure all employees knew that their ideas were valuable and that senior management was listening.

As more and more global mergers take place, sometimes between the most unlikely suitors, companies must ensure that the integration plan includes strategies for dealing with cultural differences, establishing a logical leadership structure, implementing a strong two-way communications channel at all levels of the organization, and redefining the "new" organization's vision, mission, values, and culture.[20]

CONCEPT CHECK

1. How does technology enable firms to organize as virtual corporations?
2. What effect could the gig economy have on a company's decision to outsource?
3. What are some organizational issues that must be addressed when two firms merge?