

# FUNDAMENTALS OF ORGANIZING

## Chapter 10

### The Four Fundamentals of Organizing

Over the past century, management scholars and practitioners have been greatly influenced by the FBL approach and its assumptions about the best way to fulfill these four fundamentals of organizing. When we take for granted the assumptions and ideas that FBL management emphasizes about organizational structures, we forget how they influence us, just like we forget that we are influenced by the everyday physical structures in our everyday lives. For example, the floor plan of your home and your office shapes whom you interact with and how you interact with them (e.g., is the setting formal or informal?).

Research suggests that FBL, TBL, and SET managers address each of the four fundamentals of organizing differently. FBL organizing is based on principles designed to maximize efficiency, productivity, and financial well-being. TBL organizing is based on principles designed to optimize efficiency, productivity, and profits while seeking opportunities to reduce negative socio-ecological externalities. SET organizing is based on principles designed to enhance positive socio-ecological externalities in a way that maintains adequate levels of efficiency, productivity, and profits.

In general, FBL management focuses more on the *content* of organizing, on *rational* competencies, and on breaking things down to an *individual* level of analysis. In contrast, SET management places relatively more emphasis on the *process* of organizing, on *relational* competencies, and on the team and *group* level of analysis. SET management has the most fluid orientation to organizing, whereas FBL management is more static. TBL management lies somewhere between the two, often leaning towards FBL management, but following SET principles in situations where doing so reduces negative socio-ecological externalities while enhancing an organization's financial well-being.

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Architecture theory goes back at least 2,000 years to Roman times when the three fundamentals of architecture were identified as firmness, utility, and beauty. Different schools of thought or approaches to architecture will have different emphases in how they deal with each of these three fundamentals, *but a variation of each fundamental will be evident in each approach.*

Just as there are clear differences in how buildings are designed and how they operate (depending on the approach of the architect), so also there are clear differences in how organizations are designed and how they operate (depending on the approach).

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The essence of managing the organizing function can be broken down into four fundamental components, as follows. SET managers will place a greater relative emphasis on a SET approach to the four fundamentals of organizing, while FBL managers will place a greater relative emphasis on an FBL approach. But SET managers will also draw to some extent from the FBL approach, and FBL managers will draw to some extent from the SET approach.

4 Fundamentals of Organizing	FBL Emphasis	SET Emphasis
<b>Ensure work is completed in the best way</b>	<b>Standardization:</b> developing uniform practices for organizational members to follow in doing their jobs.	<b>Experimentation:</b> ongoing voluntary implementation of new and possibly better ways of performing tasks on a trial basis.
<b>Ensure appropriate tasks are assigned to members</b>	<b>Specialization:</b> selecting sub-sets of standardized organizational tasks and allocating them to separate jobs.	<b>Sensitization:</b> members actively being aware of how their work fits with others with an eye toward improving practices via experiments that take advantage of opportunities or address needs.
<b>Ensure orderly deference among members</b>	<b>Centralization &amp; Authority:</b> the extent to which decision-making authority resides atop the organization's hierarchy, and the formal power given to specific members to make decisions in order to achieve goals.	<b>Dignification:</b> treating everyone with dignity and respect in community
<b>Ensure members work together harmoniously</b>	<b>Departmentalization:</b> how members and resources are grouped together to achieve the work of the larger organization.	<b>Participation:</b> mutual discernment and giving stakeholders a voice in how the organization is managed and how jobs are performed.
<b>The TBL focus will fall between emphases of FBL and SET.</b>		

## #1: ENSURE WORK ACTIVITIES ARE COMPLETED IN BEST WAY

### Standardization and experimentation

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To address the first fundamental of organizing, FBL managers emphasize **standardization**, *which refers to developing uniform practices for organizational members to follow in doing their jobs*. Standardization is often related to the degree of formalization in an organization. **Formalization** *refers to the amount of written documentation in an organization*. While formal standards are clearly important, so are informal standards that govern and give meaning to members' behavior.

SET managers also use standards to address the first fundamental of organizing but, instead of emphasizing standardization, SET managers tend to emphasize **experimentation**, *which refers to members' ongoing voluntary implementation of new-and-possibly-better ways of performing tasks on a trial basis*. SET experimentation seeks to improve socio-ecological well-being while maintaining (but not necessarily maximizing) financial well-being. SET experimentation differs from FBL standardization in several important ways.

Remember that the key difference between the different approaches to management is in terms of their *relative* emphasis. All approaches have some emphasis on both standardization and experimentation, but FBL managers emphasize standardization more than SET managers do, and SET managers emphasize experimentation more than FBL managers do. Medical doctors follow standards, but doctors at a SET-oriented teaching hospital are more likely to follow them with an eye towards improving practices in the next round, compared to doctors in an FBL-oriented hospital that seeks to process as many patients as possible.

## **#2: ENSURE APPROPRIATE TASKS ARE ASSIGNED TO MEMBERS**

### **Specialization and sensitization**

FBL management addresses the second fundamental of organizing by placing relative emphasis on **specialization**, *which involves selecting sub-sets of standardized organizational tasks and allocating them to separate jobs*. Typically, the specialized knowledge, skills, abilities, and other characteristics (KSAOs) required to perform each job are spelled out in job descriptions, which also may describe the formal qualifications required for job-holders (see Chapter 12).

SET managers also use specialization to address the second fundamental of organizing but, compared to FBL managements, SET managers place greater relative emphasis on **sensitization**, *which refers to members actively being aware of how their work fits with co-workers and others with an eye toward improving practices via experiments that take advantage of opportunities or address needs*. Just as FBL specialization helps to identify which standardized tasks should be performed by whom, so also SET sensitization helps to identify what kinds of experiments should be performed by whom. Rather than focusing on ensuring that organizational members conform to specific job descriptions (specialization), a hallmark of the SET approach is to encourage members to continuously adapt to their context and

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improve how they do their jobs in harmony with others around them. The focus is on the dynamic process of organizing (being sensitive to new needs and opportunities), rather than on the static outcome of organizing (having the KSAOs to perform tasks listed in a job description). Sensitization includes being sensitive to stakeholders' physical, social, ecological, and spiritual needs.

### #3: ENSURE ORDERLY DEFERENCE AMONG MEMBERS

#### Centralization

From an FBL perspective, ideas related to authority—and the degree of its centralization—are key to ensuring orderly deference among organizational members. **Centralization** refers to the extent to which decision-making authority resides atop the organization's hierarchy. **Authority** refers to the formal power given to specific members (usually managers) to arrange resources and/or to assign tasks and direct the activities of other members in ways that help to achieve organizational goals. Organizations with diffused authority have a "flat" structure where managers have a wide **span of control**, which refers to the number of members that report directly to a given manager. **Delegation** refers to the process of giving authority to a person or group to make decisions in a specified sphere of activity. **Responsibility** refers to the obligation or duty of members to perform assigned tasks. Problems arise when someone is given responsibility without being given the required authority to meet that responsibility. **Accountability** refers to the expectation that a member is able to provide compelling reasons for the decisions that they make.

#### Dignification

SET managers also use centralization to address the third fundamental of organizing but, compared to FBL management, SET managers place greater relative emphasis on the idea of **dignification**, which refers to *treating everyone with dignity and respect in community*. Dignification draws attention to everyone in an organizational community having a voice that deserves to be listened to; this contrasts with FBL centralization, which places greater relative emphasis on listening to members in positions of authority. Whereas FBL authority-based relationships tend to be somewhat static and linear (e.g., a manager has authority over her subordinate), SET dignity-based relationships tend to be dynamic and holistic (e.g., members have a sense of overall community well-being rather than a narrower sense of simply trying to maximize an organization's financial well-being). As Martin Buber put it, rather than set up authority structures that treat other stakeholders as faceless "its" in the name of utilitarian outcomes, dignification seeks to treat others as "thous" who are listened to and respected in their own right (not merely because they have authority or power).

For SET managers, creating ways of organizing that distribute dignity throughout the organization is better than trying to develop and fine-tune authority structures. Unlike authority, which is usually seen as a limited resource that must be parceled out sparingly, dignity is an unlimited resource that can be distributed generously; everyone has inherent worth that should be recognized. Consider the dignity that

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was evident when Ricardo Semler gave Semco employees the authority to set their own salaries.

According to Semler:

“Arguably, Semco’s most controversial initiative is to let employees set their own salaries. Pundits are quick to bring up their dim view of human nature, on the assumption that people will obviously set their salaries much higher than feasible. It’s the same argument we hear about people setting their own work schedules in a seven-day weekend mode. The first thing that leaps to mind is that people will come as late or little as possible—this has never been our experience.”

Treating people with dignity also means providing them with the information they require to make decisions responsibly. Semler describes five pieces of information that help employees determine how to set an appropriate salary for themselves. Managers provide employees with: 1) market surveys about what others earn who do similar work at competing organizations; 2) what everyone else in the company earns (all the way from Semler to the janitors); and 3) open discussion of the company’s profits and future prospects in order to provide a sense of whether the current market conditions allow above or below average salaries. The remaining two items are things that employees know but managers do not: 4) how much employees would like to be earning at this point in their career, keeping in mind how happy they are with their job and work-life balance; and 5) how much their spouses, neighbors, former schoolmates, and other significant “comparison others” are earning. Very seldom has this system been abused, perhaps because employees know that if they request too large a salary they run the risk of annoying their colleagues and suffering the stress that comes from making a decision that they themselves know to be unjust and undignified.

#### **#4: ENSURE MEMBERS WORK TOGETHER HARMONIOUSLY**

##### **Departmentalization**

**Departmentalization** refers to how members and resources are grouped together to achieve the work of the larger organization. Departmentalization has two key dimensions. The first is *departmental focus*, which looks at the relative emphasis an organization places on internal efficiency versus on external adaptiveness. The second is *departmental membership*, which looks at whether departmental membership is permanent versus short-term. Departmental focus is concerned with the content of the tasks each department is assigned to perform, whereas departmental membership looks at whether members are permanent and whether they come from within the organization’s boundaries.

##### **Participation**

SET managers also use departmentalization to address the fourth fundamental of organizing. However, compared to FBL and TBL managers, SET managers place greater relative emphasis on the idea of **participation**, which refers to mutual discernment and giving stakeholders a voice in how the organization is managed and how jobs are performed. SET participative structures can include permanent members

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and external stakeholders such as suppliers and customers, and they can span issues related to internal efficiency and external effectiveness, as needed. Participative structures value stakeholders' inputs on decisions, and also their input for setting the agenda as to what issues require decisions. Compared to the SET approach, the FBL and TBL approaches place relatively less emphasis on participation, both in amount and in breadth of involvement. SET management uses participative structures to complement the two generic dimensions of departmentalization (i.e., functional and divisional).

**Departmental focus.** All things being equal, SET management generally prefers a divisional structure rather than a functional structure. In addition, the SET approach prefers relatively small divisions (less than 150 members) that essentially operate as autonomous sub-units, where each member has a sense of the overall goals of the unit and understands how their individual effort meshes with the efforts of others to meet those goals. As illustrated at Semco, the ideal size for a division is about 120 to 150 members. Once a division grows much beyond this size, it is sub-divided into two divisions.

**Departmental membership.** SET managers are more likely to include and invite the participation of external stakeholders. Of course, these stakeholders are not members in a formal sense, but rather members of the larger community that an organization sees itself operating within. Stakeholders can also include the natural environment more generally. Inviting, listening to, and responding to a variety of stakeholders allows the organization to be sensitized to new opportunities, and also enhances goodwill when the inevitable mistakes are made. For example, Ricardo Semler describes meeting with customers, showing them Semco's financial statements with respect to a particular sale, and listening to what the customers say. Such transparency can in turn prompt reciprocated transparency and openness, and Semler describes how Semco has started whole new product lines simply by listening to their customers. This has been called "extreme stakeholder alignment," which involves deliberately giving opportunities to employees, partners, customers, government representatives, and society to actively participate in making organizational decisions that could affect them: "Alignment is your value creation engine."

SET management often avoids traditional pyramid-shaped organizational charts. Specifically, the SET approach is uncomfortable with symbolizing managers at the top and subordinates underneath. SET organizations sometimes invert the organizational chart, placing customers and other stakeholders at the top, and managers closer to the bottom. Other times circles are used to draw SET organization charts. For example, Semco can be depicted as three having concentric circles, with the top managers in the innermost circle, middle managers in the next circle, and the remainder of the organization in the outer circle. In other SET organizations, the top management team in the innermost circle might be depicted as overlapping with a series of intersecting circles containing various organization sub-units and other stakeholders, like petals of a flower.

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