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Rethinking Organization Size

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For decades, there has been a body of literature which argues that when it comes to organizations, small is beautiful. There is also increasing evidence that in today's highly competitive rapidly changing world, large organization size often does not produce the advantages that it once did. Many of the large, highly admired corporations of the past, today are smaller as a result of extensive layoffs and downsizing. In many cases, they have lost out to smaller more nimble organizations that are not as large. Further, new mega corporations are not appearing to replace the now smaller mega corporations of the past such as AT&T, General Motors and IBM.

Although it appears that in today's hyper-competitive business environment, large size may have more disadvantages than advantages associated with it, size in its own right does not mean that an organization has to be slow and distant from customers. New developments in organization design and information technology may be able to enhance the responsiveness of large organizations so that they can compete with smaller firms. Thus, before we reach the conclusion that large, complex organizations are obsolete dinosaurs and likely to disappear, we need to look much more closely at the advantages and disadvantages of organization size in today's business environment.

Advantages of Size

There are many advantages that can result from large size. Most of them have to do with marketing, finance, product development, purchasing and technology. A brief review of the major advantages follows.

Market Share

In many markets, particularly those that are global, large size is necessary in order to capture a significant market share. This is particularly true in industries such as consumer products, pharmaceuticals, automobiles and high technology. Market share in turn has many advantages associated with it. Earlier research based on the PIMS data base has revealed a distinct and positive relationship between market share and profitability for a number of reasons. First, share is often associated with scale economies and low-cost operations that facilitate market entry on a large scale. Second, share allows a consumer products organization to gain shelf space in stores, and to use its purchasing power to obtain lower prices and special relationships with suppliers (e.g., Wal-Mart and Procter and Gamble). It often allows an organization to play a major role in establishing price and the overall context in which business is done in a particular industry. In many industries, firms with the largest market shares often are in the best position to install and oversee a strong degree of "industry discipline" that keeps competition orderly and profitability stable.

In the mid-1990s, the search for ever larger share positions is the reason why mergers continue to occur in an era when the advantages of large size are frequently questioned. In the banking industry, public utilities, railroads, telecommunications, retail, defense, and a host of other businesses, there are obvious significant advantages to gaining market share. Thus, while many organizations are getting smaller through downsizing and selling off businesses, some organizations are getting larger by merging with companies in their industries in order to capture market share and become a leader. For example, recently several telephone companies have merged (Southwestern Bell-Pacific Telesis) as have two leading drug store chains (Rite Aid and Thrifty), and Safeway and Vons, the grocery store chains. Other industries rife with merges include:

Railroad	Banking
Union Pacific/Southern Pacific	Chemical/Chase Mahattan
Burlington Northern/Santa Fe	Wells Fargo/First Interstate
Union Pacific/CNW	BankOne/First USA
Defense	Telecommunications
Boeing/McDonnell-Douglas	Bell Atlantic/Nynex
Northrup/Grumman	MCI/British Telecom
Lockheed/Martin	SBC Communications/Pacific Telesis
Raytheon/Hughes	

Access to Low Cost Capital

Size in the minds of many investors means financial stability and thus, larger corporations are often able to get the better debt ratings and superior access to capital both through equity markets and through loans from major institutions. Size also often means large financing deals whether it is stock offerings or loans and this often means lower financing costs since there are some economies of scale in this area. As a result of these factors, large firms often end up with lower cost capital than their smaller competitors. This is one reason why General Electric has been able to secure low-cost financing for its numerous acquisitions, joint ventures and power projects in emerging markets. GE's large size enables it to secure a first call on low cost credit in the financial markets.

Brand Recognition and Advertising

With many consumer products, there are significant advantages to having a recognizable brand. Among other things, it helps reduce the perceived risk to customers of new products and product line extensions. Developing a recognizable brand often requires a considerable investment in advertising, marketing mix, R & D, and distribution. In the case of establishing a global brand such as Coca Cola, it requires enormous resources and legions of people to work with customers and partners to develop new markets, but the payoff can be large. When a firm can leverage a well-known brand from one market to another, it can spread its advertising and product development costs over a customer base of billions of possible customers. Many companies that have superior brand recognition, such as Eastman Kodak, Coke, IBM, Nike, Cannon, and Samsung, are able to make an investment in advertising for an event like the Olympics to broaden their marketing reach.

Research and Development

Conducting research and development in many industries, particularly those in high technology arenas, is becoming a prerequisite to developing new products and marketing breakthrough technologies. To fund major investments in research, organizations need to be able to amortize these costs over a large base of consumers. Without a potentially large market base, high risk research in areas like digital signal processing and pharmaceuticals simply cannot be justified. This is particularly true in an era when product life cycles are getting shorter and shorter; thus, size is an asset that enables firms to engage in costly R & D that often takes time to nurture and a large market share to recover costs.

Global Reach

Many emerging markets (e.g., China) have recently entered the global economy. They have become important new markets for goods and services produced elsewhere in the world. This can give companies a great advantage because they have the opportunity to market their products more broadly and spread their research and product development costs across many more customers.

Many of the countries that are now open to international business have not simply opened the door to new companies to enter. Instead, they have looked to gain certain advantages before allowing companies to enter their markets. Typically, they have looked for local manufacturing facilities to be built or for partnerships with the established companies entering their markets. Here again, the advantage falls to large organizations for multiple reasons. Often, only large organizations have the needed technology and the capability to transfer it, so they are in a favorable bargaining position with host governments. Further they often can afford to make the needed large initial investments in building plants and establishing operations in a new country, something that smaller companies may have trouble financing or doing on their own. Finally, if they have multiple products, they can easily justify the time and effort it takes to establish a relationship with the government in an emerging market because for them a success means not just the sale of one product it may mean the sale of many. Hence, for them there are potential economies of scale. Examples here are United Technologies in Russia, China, and Eastern Europe, and GE in China and India.

Expertise and Systems Development

Large organizations can develop internal resources and core competencies in technologies and services that are not affordable by small organizations. For example, in many cases they can afford to develop staff experts who are dedicated to certain areas like finance and employee compensation. They can also invest in corporate infrastructure in areas such as information technology and financial control systems. Economies of scale predominate here as well, because systems and centers of expertise that would be prohibitively costly on a per capita basis for a small company, can become very inexpensive on a per capita basis for a large company. For example, Fidelity Investments and Merrill Lynch were able to make large financial investments in information technology which allowed them to offer unique accounts and services.

Disadvantages of Size

The organizational research literature is replete with findings that point to the disadvantages large organizations have. Employee satisfaction tends to be lower while absenteeism and turnover tend to be higher. Employees have a harder time seeing a “line of sight” between their actions and the success of the organization of which they are part. This in turn can to lead to lower motivation on the part of employees and potentially lower organizational performance.

Large bureaucracies can become corporate dinosaurs that find it difficult to reinvent themselves in a world of rapid technological and environmental change. They develop individuals with strong vested interest in existing organizational practices who resist change and prefer the status quo. As a result, innovation is slower and new products and services are not developed well or rapidly, witness: General Motors in the 1980's, as well as IBM and PCs.

Because the coordination problems are so immense in large organizations, they have to develop extensive and expensive infrastructures in order to coordinate actions, particularly among subunits. They develop layers of management and elaborate staff groups, all of which are often insulated from the market because they do not deliver products or services to customers. This results in reward systems biased toward measuring internal performance, rather than external value to customers. Thus, large bureaucracies often develop rules and policies that lead to poor customer service and uninspired products. Further, they often fail to see the need for change and become a hindrance to change that must be overcome by individuals who are more in touch with the market and the demands and needs of customers.

Large organizations also seem to receive more than their fair share of scrutiny from government agencies and others who look for illegal behavior. As in the case of Dow Corning and those companies involved in asbestos liability lawsuits, they represent a prime target for lawsuits that are focused on finding "deep pockets" to sue. In short, their resources make them prime targets for individuals and organizations who file lawsuits.

Being part of a large corporation can make it difficult for some businesses to do business with corporations that are competitors of other parts of their corporation. For example, the equipment part of AT & T had trouble doing business with MCI and other companies which competed with AT & T's long distance service until it became a separate company (Lucent). Restaurant chains have shied away from selling Pepsi drinks because until recently, it was a competitor (Pizza Hut, Taco Bell, and Kentucky Fried Chicken).

Perhaps the most straightforward and succinct summary of the many criticisms of large organizations is that they often do not work effectively from an organizational behavior point of view. All too often, they end up being slow moving, overhead intensive, impersonal, non-responsive organizations that lose touch with the employees, their customers and ultimately end up being non-competitive.

Large Size Without the Negatives

Given the major advantages of large size, it seems almost inevitable that large organizations will dominate in markets that are global, capital intensive, technologically complex and where advantages result from global brand recognition. Of course, the advantage of size may be negated and irrelevant if large size also means a slow, ponderous organization that is consumed with its own internal politics and bureaucracy as well as having employees who are dissatisfied and poorly motivated. This raises the key question: Can organizations be designed that capture the advantages of being both large and small? I believe the answer is often yes! Organizations can be designed that, from an employee point of view and an operations point of view, behave like small organizations but when appropriate behave like large organizations in order to gain the advantages of large size with respect to marketing, research, finance, etc.

The development of new organization designs and the increasing use of sophisticated information technology is making it possible for organizations to be simultaneously large and small and thus to capture the advantages of being large as well as those of being small. There are essentially two ways to design an organization that is simultaneously large and small. One is to create large organizations that have many of the characteristics of small organizations. The other is to create small organizations that are designed to gain the advantages of being large. Each one of these is a viable strategy although as we will see, each one appears to fit best in somewhat different businesses.

The Large/Small Approach

There are a number of approaches to organization design that create small organizations within large corporations. They all divide a large corporation up into smaller business units that generate profit and loss statements and have a significant autonomy in how they operate. They vary somewhat in just how they operate. They also vary somewhat in just how large a corporate group they have and what its role is. Finally, they vary on another factor -- how related their small business units are.

One of the oldest large/small approaches is the strategic business unit model, has been around for decades. Its structure involves the creation of a number of separate business units that are overseen by a corporate staff and executive group. During the 1950s and 1960s, a particular version of this approach -- the conglomerate or unrelated business corporation -- was quite popular. The argument in favor of this approach was that a corporation could get the financial advantages of large size but still be market focused by having separate business units that are dedicated to specific products and markets. To say that this approach has fallen on hard times in the last decade would be an understatement. Company after company that adopted the unrelated business unit model has abandoned it over the last decade. AT&T, ITT, TRW, Rockwell, Litton, Teledyne, Tenneco, Textron, Hanson PLC and Westinghouse are among a long list of companies that have sold off some or most of their businesses in order to concentrate on a smaller number of related businesses.

There are a number of problems with the unrelated business unit approach to being simultaneously large and small. Perhaps the most serious ones concern access to low cost capital and the expense of the corporate management structure. Both of these problems have their roots in concerns about what value the corporate structure adds to the various business units. Many question whether corporate management in unrelated businesses can add value relative to their costs. It is clearly difficult for any executive, no matter how bright, to understand the dominant logic and key business issues in multiple businesses and contribute to them in a corporate role. In all to many cases, this hasn't stopped corporate executives from trying to be actively involved in the diverse businesses of their corporation. Partially because of this, investors have become disenchanted with the unrelated business approach. Another factor affecting the cost of capital is the desire of large investors to own pure plays, that is companies which are concentrated in one industry or in one market. Thus, the stock price of corporations with diverse businesses is often discounted, as a result of the added high costs imposed by layers of management. This, of course, eliminates the corporation's access to low cost capital.

Before dismissing the diversified or unrelated business approach to being simultaneously large and small, it is worth noting that there are some success stories around. One of these is Berkshire Hathaway, a very successful company run by Warren Buffet, one of the world's richest individuals. Buffet's strategy is to take a minimal role in the operation of companies in which Berkshire Hathaway is invested. He focuses only on appointing executives and analyzing the financial opportunities for each of his businesses. If he does not like the financial picture of the business, he simply sells it. He does not operate exactly like a mutual fund, but there are elements of this in his behavior.

Another successful example is the General Electric Corporation. General Electric is in a number of unrelated businesses ranging from the NBC television network to the manufacture of large jet engines. Unlike Berkshire Hathaway, General Electric still has a significant corporate staff even though it was significantly reduced in the early 1980's. GE argues that its staff adds value by creating and sharing organizational learning and contributing to the management and operational effectiveness of the diverse businesses which are part of General Electric. They believe that there are some general management principles and organization development approaches which are applicable across all or most of the businesses they are in. They also have an extensive commitment to organizational learning that includes a world class organization development and training center at Crotonville, New York.

It is hard to argue with the General Electric approach as they have successfully downsized and correctly focused most of their businesses over the last decade. Still, it is important to note that General Electric is an unusual case. Most companies that have tried to operate the way General Electric does, (e.g., Westinghouse) have failed. Clearly it is not an easy organizational approach to operate successfully, General Electric has had to make enormous investments in management development and organizational technology development in order to be successful with this approach. As was noted earlier instead of taking General Electric's approach, most corporations have sold off many of their unrelated businesses so they can focus on just a few businesses. This has made them smaller and, at the same time, made it easier for corporate executives to understand the remaining businesses and add value to them. This has also made it easier for employees to understand the business(es) their corporations are in, to feel a greater sense of personal involvement, and to get an ownership position in their business by obtaining stock in it.

In some cases, limiting an organization to one business is only the first step in creating a large organization that has the advantages of small size. Some businesses are simply so large that hundreds of thousands of employees may be needed to serve the global market. A large, single business corporation that is functionally organized faces the very real danger that the organization will simply be large and lack the characteristics of being small. Thus the challenge is to create small units within a large single business structure.

The classic solution to this has been to create separate business units that serve different customer segments or provide different products, thus creating multiple divisions or business units all of which are related to each other and use the same knowledge base and expertise. Companies such as Eaton, Dana and Hewlett-Packard have managed to do this quite successfully by developing strong division based organizations. The major challenge they face is acting big when that is appropriate because they have developed a large number of small, highly competitive business units.

Several retail chains appear to have done a good job of being large when it comes to advertising, purchasing, and raising capital, while being small when it comes to giving individual stores the kind of autonomy that leads to local “ownership.” Home Depot, Wal-Mart, and Nordstrom are among the large retail chains which seem to have developed an effective large/small approach to organizing by creating multiple similar small business units (stores, in this case).

A second approach to creating the large/small corporation is the “front-back” organization design. In this approach, instead of a company being divided into separate business units with their own products and customers, it is divided into units which have different roles with respect to products and customers.

A back of the company is created which has responsibility for creating and producing the products and services of the corporation. Depending on the particular industry, there may be one or more pieces to the back of a corporation. For example, in financial service companies such as Fidelity and Merrill Lynch, there may be a number of units that make up the back, each with responsibility for a different product such as checking, mutual funds, bonds, CDs, etc. In the case of computer companies, components in the back end may produce different pieces of hardware and different software programs.

The front of the organization is the customer focused piece. It, in essence, buys products from the back of the organization and is charged with integrating and delivering them to customer segments. Customer segments may represent whole industries, in the case of computers, health care, countries, or simply an individual customer.

The front-back approach to being simultaneously large and small is becoming increasingly popular because it has the ability to focus companies simultaneously on products and markets. It seems to work well in the case of multiple product technology firms, financial service firms and multiple product consumer goods firms. It in essence creates a number of small businesses within a large corporation. Each of these businesses can have its own bottom line and sell its own products. In the case of the back, the sales may only be to the front of the organization or it may sell to the outside as is true in the case of Sun Microsystems which helps offset the costs of developing expensive chips by selling them to other computer manufacturers, and by putting them in their own computers. The front, in turn, buys products from the back and has the opportunity to make a "profit" by selling to the end user, the corporation's ultimate customers. In some companies, if the front cannot get the necessary products from the back of the corporation, it can go outside in order to put together a full package of products for a customer, as IBM and other companies do that sell solutions rather than products.

The front-back approach is not a simple organizational approach to operate. Particularly difficult to balance is the relationship between the front and the back. This is where corporate executives need to be particularly active and to be highly skilled. If this relationship is not well managed, the front may find it easier to do business with the back of other organizations than with their back which feels that they are a captive customer. In addition, the back can be demoralized because of its perception that the front has performed so poorly that no matter what it does, it cannot be successful with its products.

Overall, despite the problems associated with it, the front-back represents one potentially viable approach to getting the advantages of being both small and large.

The process organizing approach is very close to the front-back model. It usually involves breaking the organization down into key processes and then assigning individuals or teams accountability and responsibility for each process. In essence, the process becomes a small business within a large corporation. Organizations differ dramatically in how many processes they have. Some have defined as many as fifteen; Harley-Davidson has defined only two. In the case of Harley, their processes look very much like a single back end and a single front end. Their first, or back end process is responsible for product development and order fulfillment. Their second process or front end is responsible for order generation.

With the increasing use of information technology and new accounting methods (particularly activity-based costing) that emphasize attributing costs and profits to the particular activities of a corporation, it is likely that the process organization approach to being simultaneously large and small will become more popular. It represents a viable option, but as with the other large/small approaches, it is not a simple one to operate. It requires identification of the right processes and the ability of the corporation to integrate activities that take place within the different processes. In the absence of an effective integration strategy, the processes may behave more like a group of small unrelated businesses than a business that is simultaneously large and small. This is currently the problem at AT&T now as the firm seeks to realign its various telecommunication operations with the different needs of varying customer bases.

A fourth approach to being simultaneously large and small is the project or matrix approach. It has been popular for decades in the aerospace and construction industries as well as in and other industries where individuals need to come together for a period of time to work intensively on a particular project or effort. It fits well where projects need to be staffed by relatively sophisticated technologists and where it is important to have significant capital and organizational stability behind the project effort, hence the attractiveness of this approach to the aerospace and construction industries. It also has proved to be popular for large scale consulting projects and other knowledge-related work where individuals need to be dedicated to projects for a period of time.

A number of companies tried the matrix or project approach in the 1970s and ultimately abandoned it. There were a number of reasons for the failure of these project organizations, but in most cases, the reason was either poor implementation or poor fit with the business. As with the front-back organization, it is not an easy organization design to manage and make work. However, when it fits and works well it can provide superior performance and a competitive advantage.

Matrix formats work best to combine size and agility when the matrix or project approach creates a small organization in the sense that a small number of the total employees of the corporation are specifically assigned to an individual project. It becomes *their* business for a period of time, but during that period of time, they are still members of the large organization. As a result they have the advantages of being part of a larger organization with its technological expertise, ability to provide them with benefits, and develop their knowledge and careers.

If there is any one key to operating a successful matrix organization, it seems to be in being sure that the project side of the organization is strong and can operate as a mini-business within the larger corporation. This means it needs to have a bottom line focus and decision making capability in the true sense of a small business. All too often in matrix organizations, the so-called functional or corporate side of the matrix that is the engineering function, the marketing function and other main functions of the corporation, are more powerful than the project leaders. As a result, instead of feeling like a group of small businesses that is constantly changing, the organization feels like a large functional bureaucracy that asks its functional experts to work on particular projects. The key to strengthening the projects is to give the project leaders reward power and budget power for the individuals and operations that are part of their project.

Overall we have been able to identify four viable approaches to creating large organizations that have some of the advantages and "feel" of small organizations. Before we consider where these large/small approaches fit best, we need to consider how small organizations can be designed to operate more like large ones.

The Small/Large Approach

Creating small organizations that have the performance capabilities of large organizations is an intriguing approach to being simultaneously large and small. It can be accomplished by creating links and working relationships among small firms. It usually involves firms taking on different limited roles in a particular business and the development of innovative coordinating mechanisms among the companies that are part of a business network. The small/large approach has become increasingly popular in the last decade, partly as a result of the success of some high profile companies that have taken this approach. Information technology has also made it easier to create small/large organizations.

There are various names for the major approach that is being used to create the advantages associated with large organization size by combining small organizations. These include network organizations, virtual organizations, and value-added partnerships. The central idea behind all of these is combining a number of small businesses in order to create many of the performance capabilities of a large business.

Companies who have taken the small/large approach include Benetton, Nike, Reebok, and many motion picture and entertainment industry companies. They have built networks of many companies, each with a limited specific role. At the core of each network is an organization that performs some key functions for the network and coordinates the activities of the other members of the network. For example in the fashion business, there is usually a large central entity such as Benetton that handles design decisions for the network and coordinates manufacturing, advertising, marketing and distribution for the network. The network in turn is made up of many small manufacturing companies, retailers who actually distribute the products and the usual array of advertising agencies, shipping companies, etc. who help move the product from the factory to the store and ultimately to the consumer’s home. A similar approach has been taken in the health care industry as hospitals’ physician groups and laboratory businesses have developed coordination mechanisms that link them to HMOs and insurance companies.

The advantages of the network approach are many. A key one is that each piece of the network has to do only one thing and it therefore can focus on doing it at a world-class level. It also has the advantage of being very flexible since the network can reform itself to include new products as well as drop obsolete and inefficient suppliers and marketers. In essence, like the front-back organization, it transfers much of the responsibility for individual performance to small business units and does not rely on bureaucracy and corporate control to push them toward excellence. Instead, it relies on the competitive marketplace to judge the units' performance and to motivate them. If a member of the network is not world-class in what they do, they can be replaced by another organization.

The networks' most complicated activity usually is coordinating the performance of the different business units. Nike and Benetton have grown very skilled at this. They have built a sophisticated information system to coordinate the stocking of their stores and to record the sales volume of all of their products. This has allowed them efficiencies in manufacturing and distribution. Benetton also has acted as a financial and knowledge bank for its network organization thus allowing the smaller organizations access to low cost capital. Benneton has also pushed technology forward in some areas and shared this with its network members. This has allowed small companies to gain one more of the advantages of being large, that is access to advanced technology in their particular area.

Overall, the network organization approach clearly is a viable approach to allowing small organizations to gain many of the advantages of being large. Properly managed, it can provide low cost capital, the ability to develop global brand names, and to market worldwide. It is a complicated structure to manage, however. Problems can develop because of the centrifugal behavior of independent business units. This has been a particular problem for fashion networks such as the one managed by Nike, as well as for the film production industry. In the case of Nike, some of their manufacturing network members have been accused of engaging in employment practices which are unethical and unacceptable in many of the markets where they sell their products. It is easy to see why Nike is in this position. One of the advantages of being a network organization is being able to use organizations that are world-class in a particular function that needs to be performed. In many segments of fashion manufacturing, world-class often means low cost and this means going to low wage, underdeveloped countries such as China.

The franchise approach is in many ways very similar to the network approach. Its major difference is that the coordination mechanism is substantially different. Typically, the central organization, such as McDonald's, is much larger and exercises much more control over the business unit. The small business unit in most franchise industries is the individual retail outlet. In the food business, it may be a million dollar store; in the case of cosmetic sales, it may simply be an individual Mary Kay salesperson knocking on the doors of customers.

The advantages of the franchise model are similar to those of the network approach. Individual, small businesses exist that have a strong line of sight and potentially the commitment of individuals in them to their success. At the same time, the small business has the opportunity to use a global brand name and gain the marketing and the purchasing advantages which are inherent in a large corporation. The disadvantages of this approach, as with the network model, often include poorly performing franchise units. Conflicts often develop between the franchiser and these units. Typically, the franchise approach is less flexible in eliminating poor performing units than is the network model. This occurs because that the franchise stores have paid a fee to join and usually have a multi-year contract to be part of the franchise network.

Particularly as practiced by major franchisers such as Burger King, KFC, and McDonald's, the franchise model often comes closer to the old large organization model than does the typical network organization. In order to gain the advantages of size, policies are made consistent among franchises on key issues related to pricing, quality and new product roll-out. This consistency may achieve the competitive advantages associated with being large including purchasing and advertising, but can eliminate the feeling of being a small business. Finally, the franchisers sometimes own a number of stores (hundreds) and do not allow these company-owned and run stores much autonomy, so the employees do not end up feeling as if they are part of a small organization. It is only those individuals in the units which are run by franchisees who feel they are in a small-large organization.

We have identified two major small/large approaches to organizing. The network and franchise approaches are particularly effective at capturing many of the marketing and product development advantages that come from large size. Properly managed, they can also give most employees the feeling of being involved in a small business.

Making the Choice

Three very different approaches to managing large scale businesses have been discussed: traditional large organizations, large/small organizations, and small/large organizations. Each of these approaches has its advantages and disadvantages. The question that remains to be answered is whether it is possible to state any guidelines which indicate where each of them is most appropriately used.

In answering this question, let's start with the traditional, large bureaucratic, functional organization (in other words the large/large organization). This is still an appropriate form of organization in situations which are highly stable and monopolistic in character. Traditional functionally organized corporations can perform adequately in stable environments when they are well managed. Although the number of these situations is decreasing, they still exist, often where there are national or local monopolies such as in public utilities, and regulated business, near monopolies, and in a host of government services. In these situations, there is little incentive and reason to go to one of the more complicated organization design approaches such as creating a front/back organization or operating a franchise model.

The most interesting choice is between the large/small approach and the small/large organizational approach. Although it is difficult to be highly specific about when one is more appropriate than the other, there do appear to be some general guidelines that suggest when one is better than the other. The large/small approach, for example, seems to be most appropriate where a long term orientation is necessary. Examples of this are where a consumer wants to be sure that the seller has a stable, long-term orientation toward the market or where major customers want to deal with firms that have the necessary capital and funding to support a major product or project. It also seems to fit where there are relatively complicated technology issues to be faced, where complex industry standards need to be set or met, and where multiple, integrated products are needed to satisfy the market. This is particularly true where research and development is needed to grow a shared technology base that supports the multiple products that an organization needs to offer. Finally, when it comes to coordinating purchasing and distribution, the large/small approach appears to give the greatest leverage. Thus, if there is a need for integrated purchasing, distribution and other functions or processes in a particular business, the large/small approach would seem to be the choice. If we take the characteristics of the type of businesses that fit the large/small approach, we end up with industries such as aerospace, computers, chemicals, pharmaceuticals and oil refining; in short, capital-intensive, relatively long-term industries that are most effective when they can market their products on a global basis.

The small/large approach seems to be the most appropriate approach for very rapidly changing businesses that need a direct and powerful customer focus. It is not surprising that this approach has been particularly popular in the entertainment industry and in the fashion industry. It also seems to be appropriate for certain technical projects that are relatively short term in nature. For example, writing certain types of software or solving technical problems in electronics. Here the need often is to bring together a team of technical experts or small technology based businesses to work on an especially challenging project or issue. Indeed, it is here where we may see the increasing use of the so-called virtual organizations that are little more than a temporary collection of individuals who get together with the aid of telecommunications or the internet to work on a technical problem and come up with a new product or service.

Conclusion

The traditionally organized large corporation may not be dead, but it appears that it will continue to lose market share except in those increasingly rare situations where a stable noncompetitive environment exists and there are economies of scale to be realized. The reason for its decline is simple: It does not provide the performance advantages that are needed to win in an increasing number of today's business markets. But it does not follow that small entrepreneurial business will necessarily replace most large traditional organizations. Two other alternatives, the large/small organization and the small/large organization, appear to be much more likely to be the dominant replacements for traditional organization designs. The advantages of the large/small approach include being able to do complex work and projects as well as the advantage that size yields with respect to capital foundation, purchasing, advertising, and knowledge development. The small/large approach may have fewer obvious advantages, but it has some important ones: flexibility and adaptability, a market interface for all parts of the organization, and the potential for a strong resulting motivation on the part of most employees.

Of the two approaches, the large/small approach appears to have the greatest future applicability because it fits a wider number of business situations. Although it leads to large organizations, it does not necessarily lead to organizations as large as the mega corporations of the past such as AT&T, IBM and General Motors. They, in many cases, were so large that even breaking them down into small business units failed to create the feeling of a large/small organization. One exception here may be retail business. Wal-Mart is on the way to being as large as General Motors once was by using the large/small approach. It remains to be seen however, whether they can make their approach work with more than three quarters of a million employees.

Looking to the future, we should expect to see a large number of major mergers and acquisitions. Unlike the past however, they are more likely to involve companies in closely related businesses and industries. Growth that leads to a larger market share makes sense in a number of industries, particularly if it can be managed in a way that leads to a large/small organization. It also may make sense if it leads to the ability of an organization to operate as a front/back organization that is able to add more value. What we should not expect to see is mergers and acquisitions that lead companies to diversifying their business portfolios, that is, companies growing by entering unrelated businesses. This has few advantages, and it simply creates more mass that, unless very well managed, may be more of a handicap than an advantage.

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