

# Organizational Structure and Design



# Defining Organizational Structure

- **Organizational Structure**
  - The formal arrangement of jobs within an organization.
- **Organizational Design**
  - A process involving decisions about six key elements:
    - ❖ Work specialization
    - ❖ Departmentalization
    - ❖ Chain of command
    - ❖ Span of control
    - ❖ Centralization and decentralization
    - ❖ Formalization

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## **Exhibit 10–1 Purposes of Organizing**

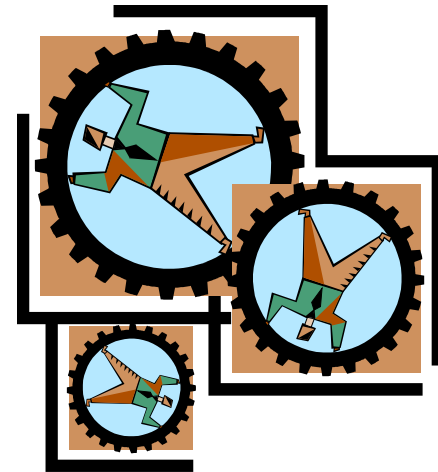
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- **Divides work to be done into specific jobs and departments.**
- **Assigns tasks and responsibilities associated with individual jobs.**
- **Coordinates diverse organizational tasks.**
- **Clusters jobs into units.**
- **Establishes relationships among individuals, groups, and departments.**
- **Establishes formal lines of authority.**
- **Allocates and deploys organizational resources.**

# Organizational Structure

- **Work Specialization**

- The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.
- Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.



# Departmentalization by Type

- **Functional**

- Grouping jobs by functions performed

- **Product**

- Grouping jobs by product line

- **Geographical**

- Grouping jobs on the basis of territory or geography

- **Process**

- Grouping jobs on the basis of product or customer flow

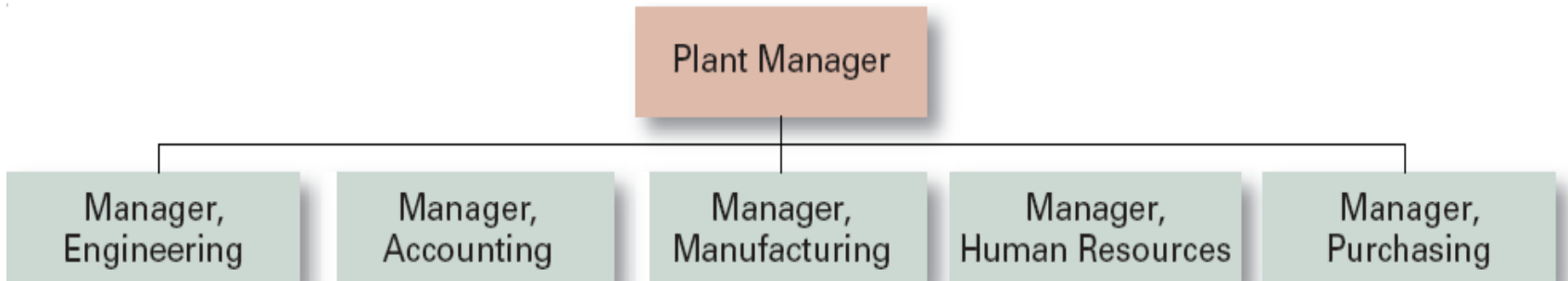
- **Customer**

- Grouping jobs by type of customer and needs

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## Exhibit 10–2 Functional Departmentalization

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- **Advantages**

- **Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations**
- **Coordination within functional area**
- **In-depth specialization**

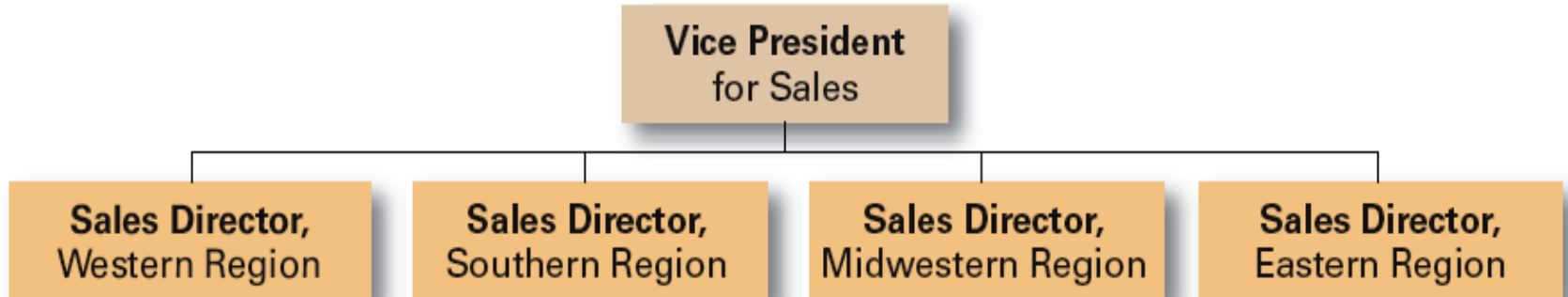
- **Disadvantages**

- **Poor communication across functional areas**
- **Limited view of organizational goals**

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## Exhibit 10–2 (cont'd) Geographical Departmentalization

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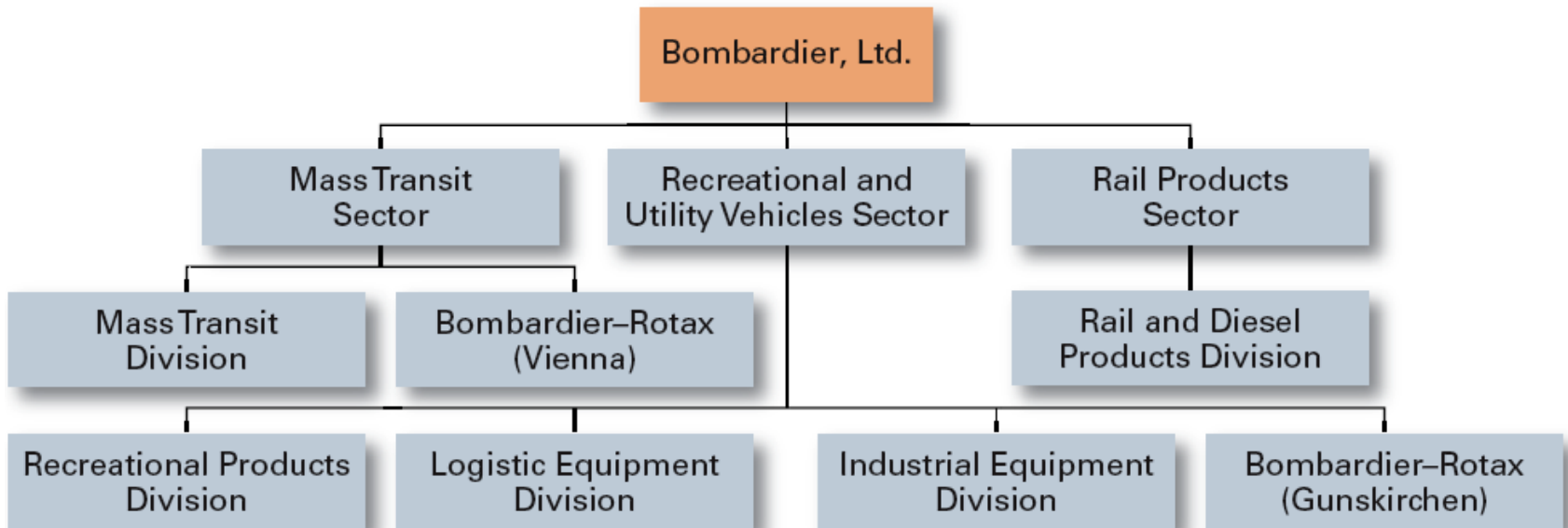


- **Advantages**
  - More effective and efficient handling of specific regional issues that arise
  - Serve needs of unique geographic markets better
- **Disadvantages**
  - Duplication of functions
  - Can feel isolated from other organizational areas

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## Exhibit 10–2 (cont'd) Product Departmentalization

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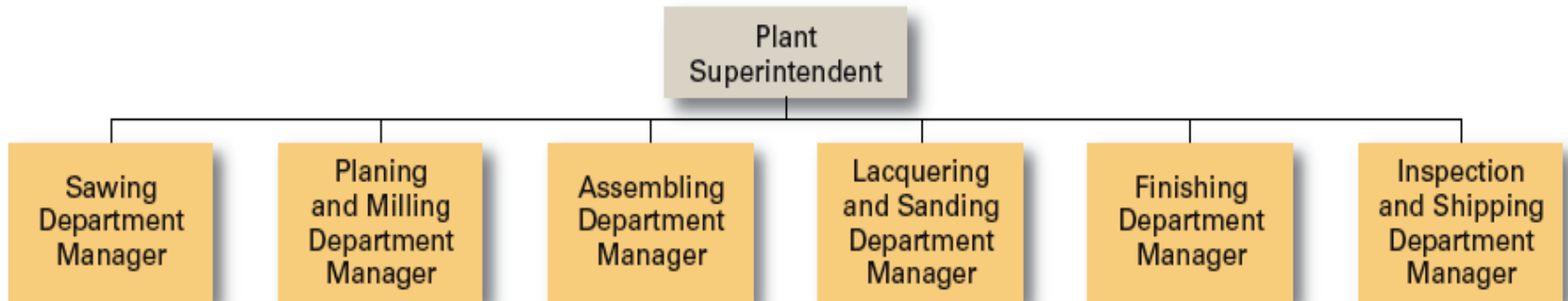
- + **Allows specialization in particular products and services**
- + **Managers can become experts in their industry**
- + **Closer to customers**
- **Duplication of functions**
- **Limited view of organizational goals**



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## Exhibit 10–2 (cont'd) Process Departmentalization

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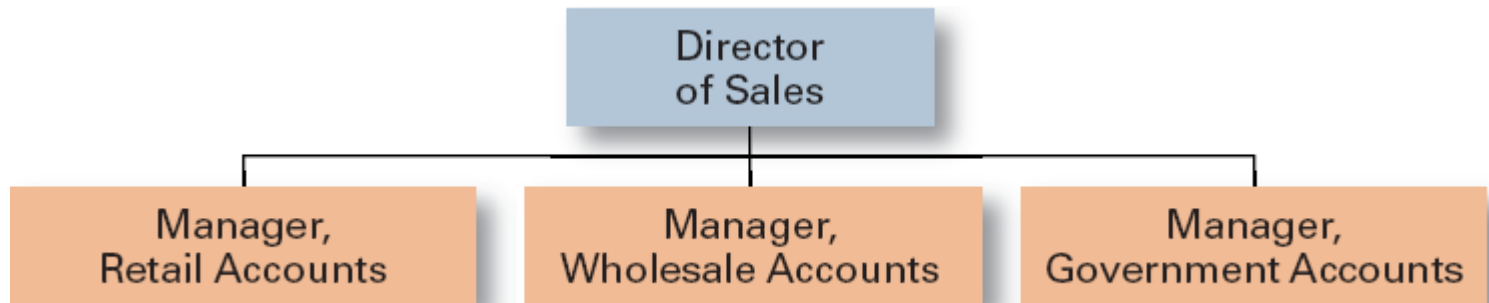


- + More efficient flow of work activities
- Can only be used with certain types of products

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## Exhibit 10–2 (cont'd) Customer Departmentalization

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- + Customers' needs and problems can be met by specialists
- Duplication of functions
- Limited view of organizational goals

# Organization Structure (cont'd)

- Chain of Command

- The continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization and clarifies who reports to who.



# Organization Structure (cont'd)

- **Authority**

- The rights inherent in a managerial position to tell people what to do and to expect them to do it.

- **Responsibility**

- The obligation or expectation to perform.

- **Unity of Command**

- The concept that a person should have one boss and should report only to that person.

# Organization Structure (cont'd)

- **Span of Control**

- The number of employees who can be effectively and efficiently supervised by a manager.
- Width of span is affected by:
  - ❖ Skills and abilities of the manager
  - ❖ Employee characteristics
  - ❖ Characteristics of the work being done
  - ❖ Similarity of tasks
  - ❖ Complexity of tasks
  - ❖ Physical proximity of subordinates
  - ❖ Standardization of tasks

## Exhibit 10–3 Contrasting Spans of Control

		Members at Each Level	
		Assuming Span of 4	Assuming Span of 8
Organizational Level	(Highest)	1	1
	2	4	8
		16	64
	4	64	512
		256	4,096
	6	1,024	
	4,096		
(Lowest)			
		Span of 4:	Span of 8:
		Employees: = 4,096	Employees: = 4,096
		Managers (level 1–6) = 1,365	Managers (level 1–4) = 585

# Organization Structure (cont'd)

- **Centralization**

- The degree to which decision-making is concentrated at a single point in the organizations.
  - ❖ Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders.

- **Decentralization**

- Organizations in which decision-making is pushed down to the managers who are closest to the action.

- **Employee Empowerment**

- Increasing the decision-making authority (power) of employees.

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## Exhibit 10–4 Factors that Influence the Amount of Centralization

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- **More Centralization**

- Environment is stable.
- Lower-level managers are not as capable or experienced at making decisions as upper-level managers.
- Lower-level managers do not want to have a say in decisions.
- Decisions are relatively minor.
- Organization is facing a crisis or the risk of company failure.
- Company is large.
- Effective implementation of company strategies depends on managers retaining say over what happens.



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## Exhibit 10–4 (cont'd) Factors that Influence the Amount of Centralization

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- **More Decentralization**

- Environment is complex, uncertain.
- Lower-level managers are capable and experienced at making decisions.
- Lower-level managers want a voice in decisions.
- Decisions are significant.
- Corporate culture is open to allowing managers to have a say in what happens.
- Company is geographically dispersed.
- Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

# Organization Structure (cont'd)

- Formalization

- The degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.
  - ❖ Highly formalized jobs offer little discretion over what is to be done.
  - ❖ Low formalization means fewer constraints on how employees do their work.

# Organizational Design Decisions

- **Mechanistic Organization**

- A rigid and tightly controlled structure
  - ❖ High specialization
  - ❖ Rigid departmentalization
  - ❖ Narrow spans of control
  - ❖ High formalization
  - ❖ Limited information network (downward)
  - ❖ Low decision participation

- **Organic Organization**

- Highly flexible and adaptable structure
  - ❖ Non-standardized jobs
  - ❖ Fluid team-based structure
  - ❖ Little direct supervision
  - ❖ Minimal formal rules
  - ❖ Open communication network
  - ❖ Empowered employees

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## Exhibit 10–5 Mechanistic versus Organic Organization

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### Mechanistic

- High specialization
- Rigid departmentalization
- Clear chain of command
- Narrow spans of control
- Centralization
- High formalization

### Organic

- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization

# Contingency Factors

- **Structural decisions are influenced by:**
  - **Overall strategy of the organization**
    - ❖ Organizational structure follows strategy.
  - **Size of the organization**
    - ❖ Firms change from organic to mechanistic organizations as they grow in size.
  - **Technology use by the organization**
    - ❖ Firms adapt their structure to the technology they use.
  - **Degree of environmental uncertainty**
    - ❖ Dynamic environments require organic structures; mechanistic structures need stable environments.

# Contingency Factors (cont'd)

- **Strategy Frameworks:**

- **Innovation**

- ❖ Pursuing competitive advantage through meaningful and unique innovations favors an organic structuring.

- **Cost minimization**

- ❖ Focusing on tightly controlling costs requires a mechanistic structure for the organization.

- **Imitation**

- ❖ Minimizing risks and maximizing profitability by copying market leaders requires both organic and mechanistic elements in the organization's structure.

# Contingency Factors (cont'd)

- **Strategy and Structure**

- Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change.

- **Size and Structure**

- As an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules and regulations.

# Contingency Factors (cont'd)

- Technology and Structure

- Organizations adapt their structures to their technology.
- Woodward's classification of firms based on the complexity of the technology employed:
  - ❖ **Unit production** of single units or small batches
  - ❖ **Mass production** of large batches of output
  - ❖ **Process production** in continuous process of outputs
- Routine technology = mechanistic organizations
- Non-routine technology = organic organizations



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## Exhibit 10–6 Woodward’s Findings on Technology, Structure, and Effectiveness

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	Unit Production	Mass Production	Process Production
Structural characteristics	Low vertical differentiation	Moderate vertical differentiation	High vertical differentiation
	Low horizontal differentiation	High horizontal differentiation	Low horizontal differentiation
	Low formalization	High formalization	Low formalization
Most effective structure	Organic	Mechanistic	Organic

# Contingency Factors (cont'd)

- **Environmental Uncertainty and Structure**
  - Mechanistic organizational structures tend to be most effective in stable and simple environments.
  - The flexibility of organic organizational structures is better suited for dynamic and complex environments.



# Common Organizational Designs

- **Traditional Designs**

- **Simple structure**

- ❖ Low departmentalization, wide spans of control, centralized authority, little formalization

- **Functional structure**

- ❖ Departmentalization by function

- Operations, finance, human resources, and product research and development

- **Divisional structure**

- ❖ Composed of separate business units or divisions with limited autonomy under the coordination and control the parent corporation.

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## **Exhibit 10–7    Strengths and Weaknesses of Traditional Organizational Designs**

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### **Simple Structure**

Strengths: Fast; flexible; inexpensive to maintain; clear accountability.

Weaknesses: Not appropriate as organization grows; reliance on one person is risky.

### **Functional Structure**

Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment) and employees are grouped with others who have similar tasks.

Weaknesses: Pursuit of functional goals can cause managers to lose sight of what's best for overall organization; functional specialists become insulated and have little understanding of what other units are doing.

### **Divisional Structure**

Strengths: Focuses on results—division managers are responsible for what happens to their products and services.

Weaknesses: Duplication of activities and resources increases costs and reduces efficiency.

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## Exhibit 10–8 Contemporary Organizational Designs

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### Team Structure

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- **What it is:** A structure in which the entire organization is made up of work groups or teams.
- **Advantages:** Employees are more involved and empowered. Reduced barriers among functional areas.
- **Disadvantages:** No clear chain of command. Pressure on teams to perform.

### Matrix-Project Structure

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- What it is:** A structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
- **Advantages:** Fluid and flexible design that can respond to environmental changes. Faster decision making.
- **Disadvantages:** Complexity of assigning people to projects. Task and personality conflicts.

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## Exhibit 10–8 (cont'd) Contemporary Organizational Designs

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### Boundaryless Structure

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- What it is: A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual and network types of organizations.
- Advantages: Highly flexible and responsive. Draws on talent wherever it's found..
  - Disadvantages: Lack of control. Communication difficulties..

# Organizational Designs (cont'd)

- Contemporary Organizational Designs

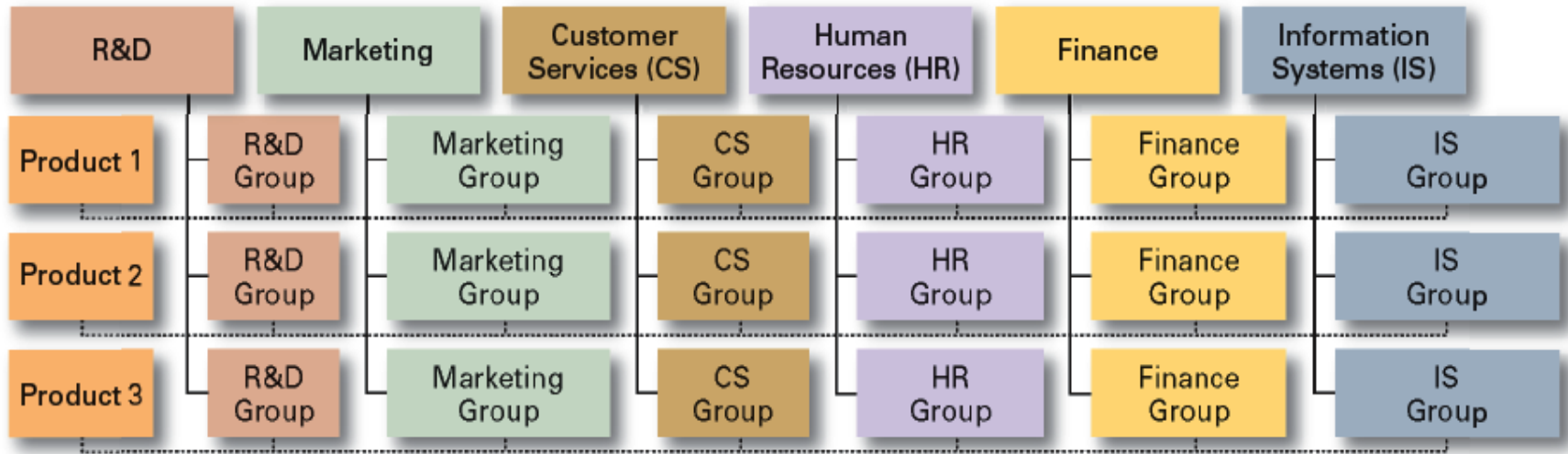
- Team structures

- ❖ The entire organization is made up of work groups or self-managed teams of empowered employees.

- Matrix and project structures

- ❖ Specialists from different functional departments are assigned to work on projects led by project managers.
- ❖ Matrix and project participants have two managers.
- ❖ In project structures, employees work continuously on projects; moving on to another project as each project is completed.

## Exhibit 10–9 An Example of a Matrix Organization





# Organizational Designs (cont'd)

- Contemporary Organizational Designs (cont'd)

- Boundaryless Organization

- ❖ An flexible and unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers.
- ❖ Removes internal (horizontal) boundaries:
  - Eliminates the chain of command
  - Has limitless spans of control
  - Uses empowered teams rather than departments
- ❖ Eliminates external boundaries:
  - Uses virtual, network, and modular organizational structures to get closer to stakeholders.

# Removing External Boundaries

- **Virtual Organization**

- An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise.

- **Network Organization**

- A small core organization that outsources its major business functions (e.g., manufacturing) in order to concentrate what it does best.

- **Modular Organization**

- A manufacturing organization that uses outside suppliers to provide product components for its final assembly operations.

# Today's Organizational Design Challenges

- **Keeping Employees Connected**
  - Widely dispersed and mobile employees
- **Building a Learning Organization**
- **Managing Global Structural Issues**
  - Cultural implications of design elements

# Organizational Designs (cont'd)

- The Learning Organization

- An organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees.
- Characteristics of a learning organization:
  - ❖ An open team-based organization design that empowers employees
  - ❖ Extensive and open information sharing
  - ❖ Leadership that provides a shared vision of the organization's future, support and encouragement
  - ❖ A strong culture of shared values, trust, openness, and a sense of community.