

The Arrangement of Reporting Relationships

Objectives

- ▶ Organization Structure
- ▶ Information– Sharing perspective on structure
 - Vertical Information Sharing
 - Horizontal Information Sharing
- ▶ Organization Design Alternatives
- ▶ Functional, Divisional and Geographic Designs
- ▶ Matrix Structure
- ▶ Horizontal Structure
- ▶ Virtual Networks and Outsourcing
- ▶ Hybrid Structure Applications of Structural Design

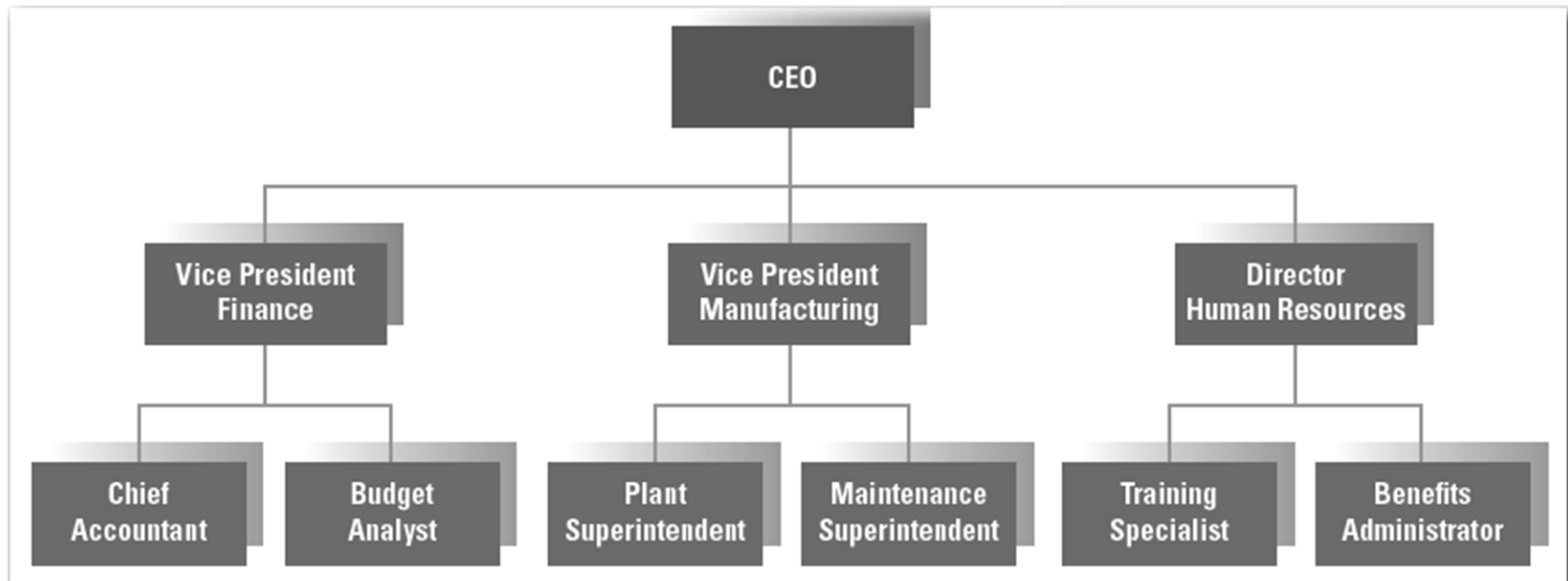
Opening Case

- ▶ Wyeth Pharmaceuticals – Pg 43

Organization Structure

- ▶ Formal Reporting Relationships
 - Number of levels
 - Span of control
- ▶ Grouping of Individuals
 - Creation of departments
- ▶ Design of Systems
 - Communication, coordination, and integration of efforts
- ▶ ***Horizontal information and coordination reflected in organization chart***

A Sample Organization Chart



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Information-Sharing Perspective on Structure

Vertical and horizontal information flow

- Traditional organization designed for efficiency?
 - *Centralized* authority focused on top level decision-making
- Learning organization which emphasizes communication and collaboration
 - *Decentralized* authority focused on shared tasks and decisions

Centralization vs. Decentralization

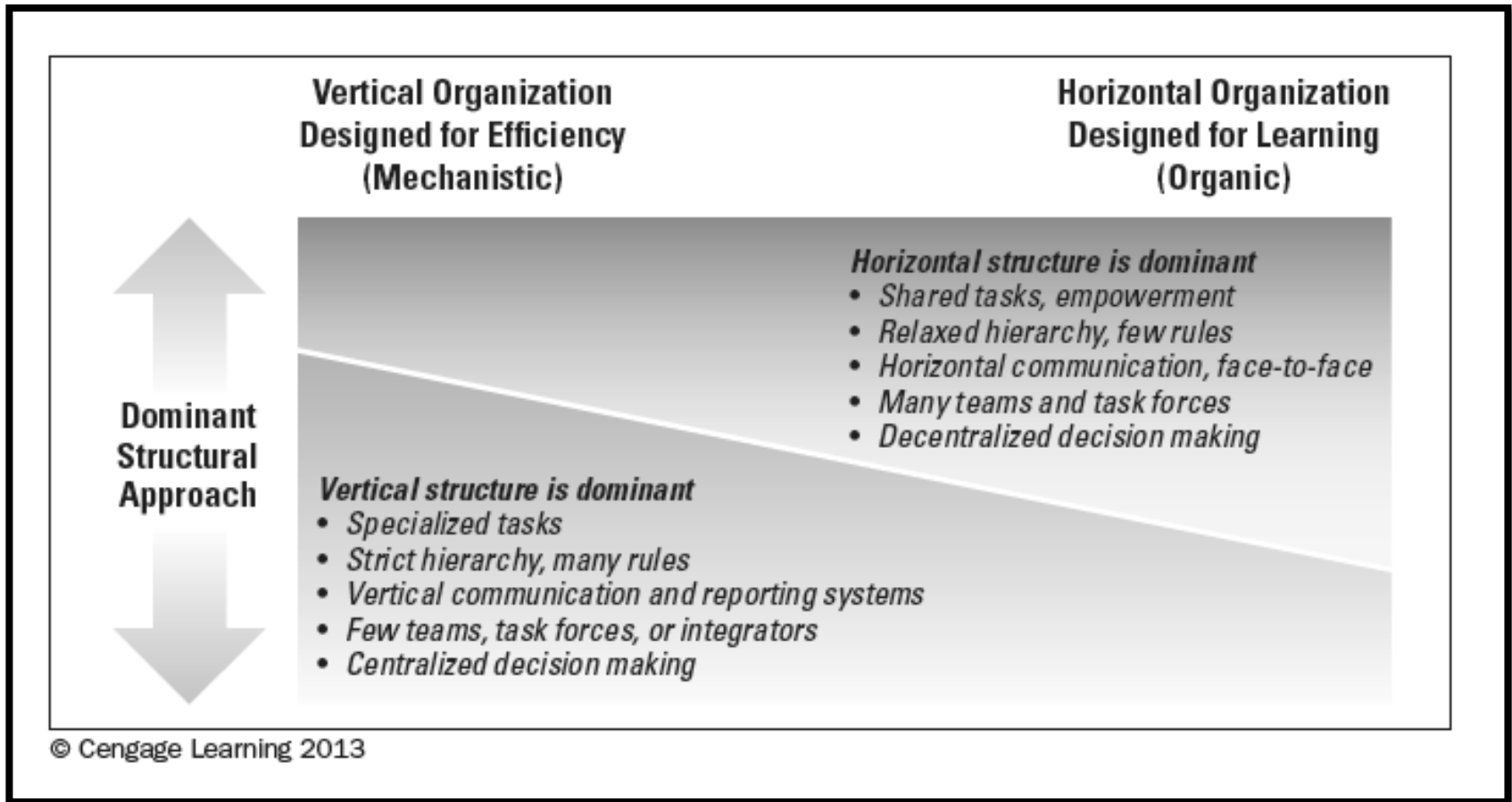
- ▶ Centralized decision making which means problems and decisions are funneled to top levels of the hierarchy for resolution
- ▶ Decentralized decision making means decision making authority is pushed down to the lower organizational levels

Managers are always searching for the best combination of vertical control and horizontal collaboration, centralization and decentralization for their own situations

Case in practice

- ▶ Textron – Page 47

Efficiency versus Learning Outcomes



Vertical Information Sharing

- ▶ *Vertical linkages* coordinate activities between the top and the bottom of the organization
- ▶ *Hierarchical referral* are the vertical lines which identify the chain of command
- ▶ *Rules and Plans* create vertical links
- ▶ Reports, computer systems, and written information are *vertical information systems*

Case in practice

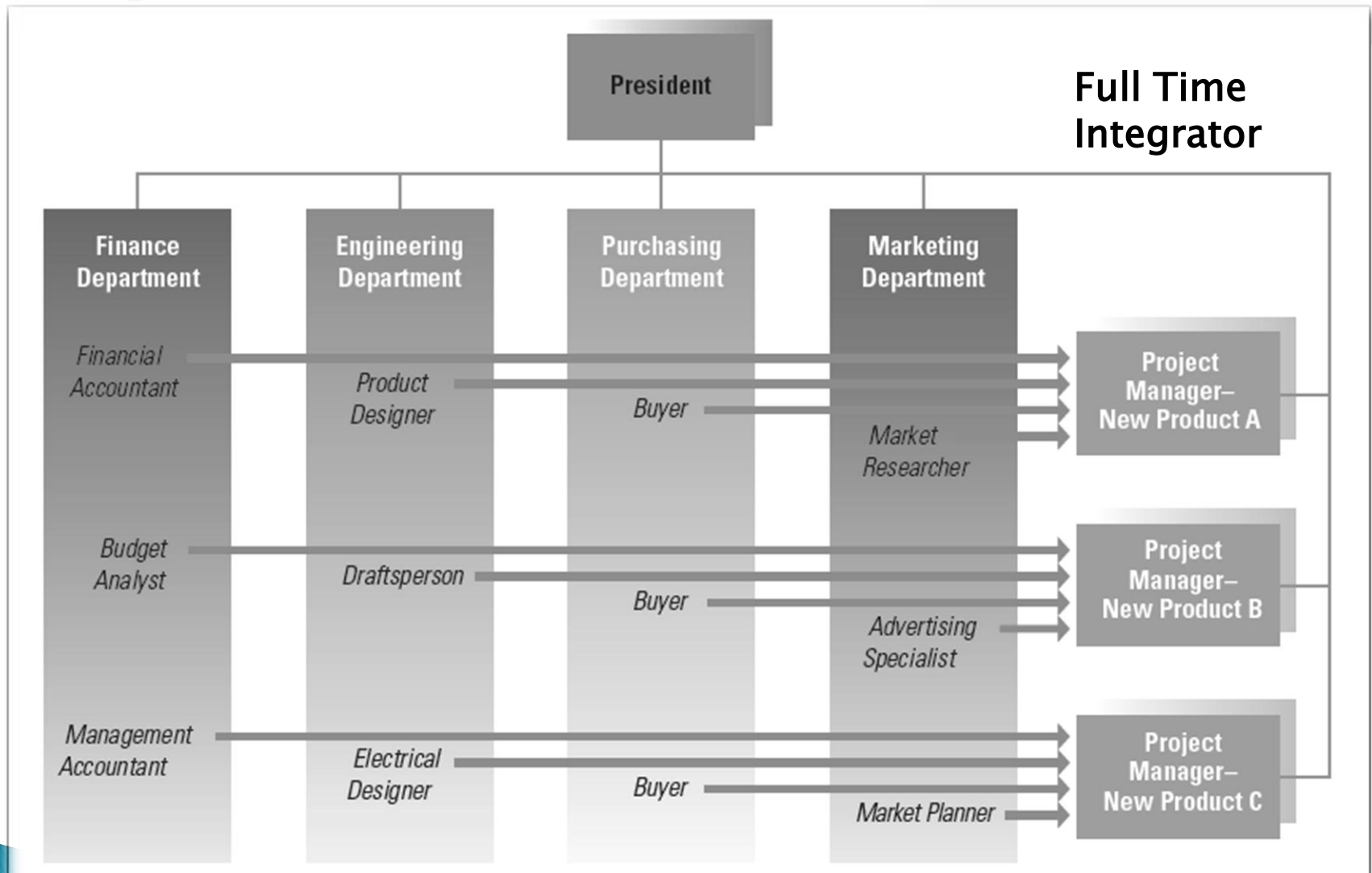
- ▶ Chrysler – Page 49

Horizontal Information Sharing

Horizontal linkage coordinates activities across organizational departments – *not traditionally drawn on the organizational chart*

- Information Systems – KM Systems
- Liaison Roles – link 2 departments
- Task Forces – across org teams
- Full-Time Integrator
- Teams

Ladder of Mechanisms for Horizontal Linkages



Virtual Team

- ▶ A virtual team is one that is made up of organizationally or geographically dispersed members who are linked primarily through advanced information and communication technologies
- ▶ Ex – IBM’s virtual teams collaborate primarily via internal websites using wiki technology

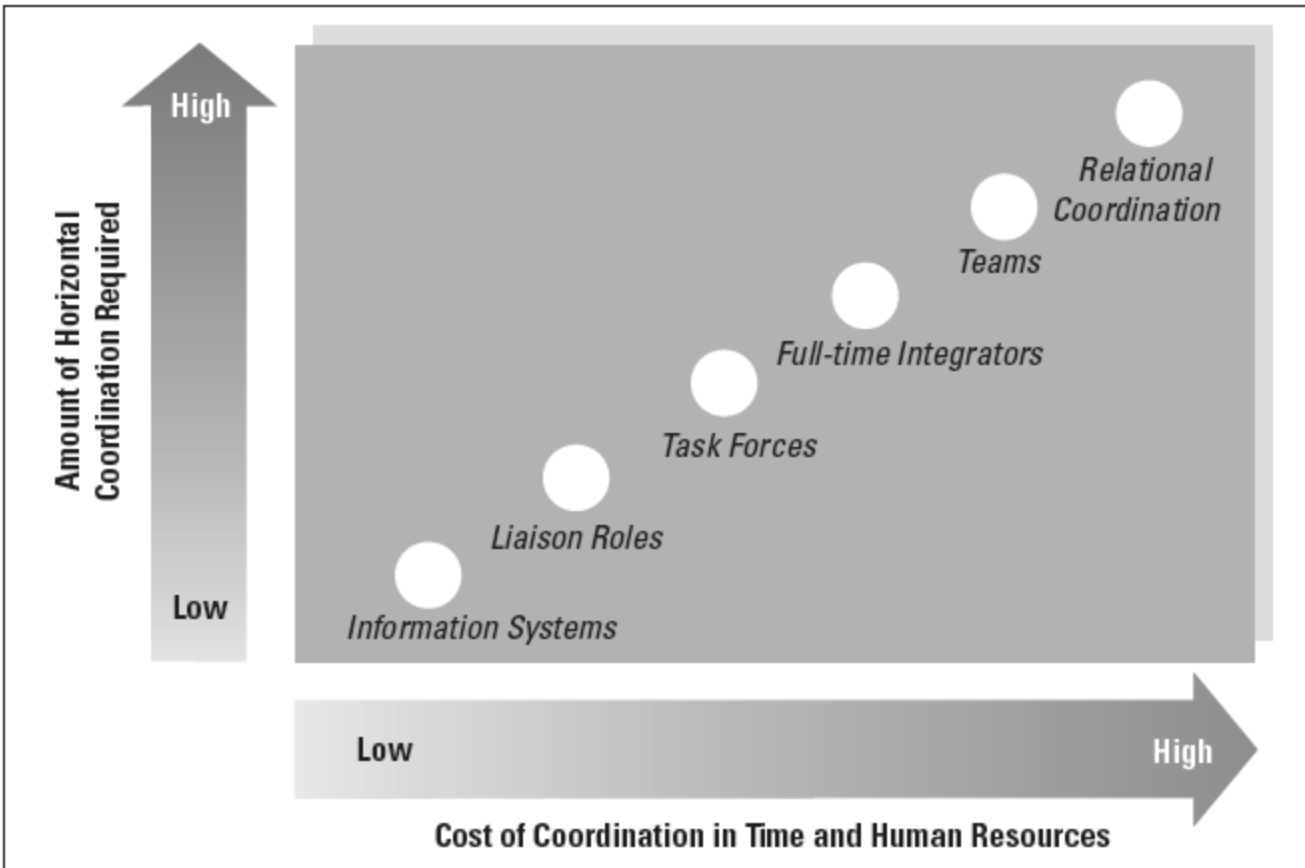
Teams and Horizontal Coordination

- ▶ Exhibit 2.4 Page 52

Relational Coordination

- ▶ High level of horizontal coordination
- ▶ Frequent, timely, problem-solving communication
- ▶ Relationships of shared goals, shared knowledge, and mutual respect

Horizontal Coordination and Linkages



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Organization Design Alternatives

- ▶ The overall design of organization structure indicates three things
 - Required work activities
 - Reporting relationships
 - Departmental Grouping Options

Departmental Grouping Options

Functional Grouping

Divisional Grouping

Multi Focused Grouping

Horizontal Grouping

Virtual Network Grouping

Departmental Grouping Options

- ▶ Exhibit 2.6 Page 55

Functional Structure

- ▶ Activities grouped by common function
- ▶ All specific skills and knowledge are consolidated
- ▶ Promotes economies of scale
- ▶ Slow response to environmental changes
- ▶ *Prevalent approach but few companies can respond in today's environment without horizontal linkages*

Functional: Strengths & Weaknesses

Strengths	Weaknesses
<ol style="list-style-type: none">1. Allows economies of scale within functional departments2. Enables in-depth knowledge and skill development3. Enables organization to accomplish functional goals4. Is best with only one or a few products	<ol style="list-style-type: none">1. Slow response time to environmental changes2. May cause decisions to pile on top; hierarchy overload3. Leads to poor horizontal coordination among departments4. Results in less innovation5. Involves restricted view of organizational goals

Source: Based on Robert Duncan, "What Is the Right Organization Structure?" *Organizational Dynamics* (Winter 1979), 59–80.

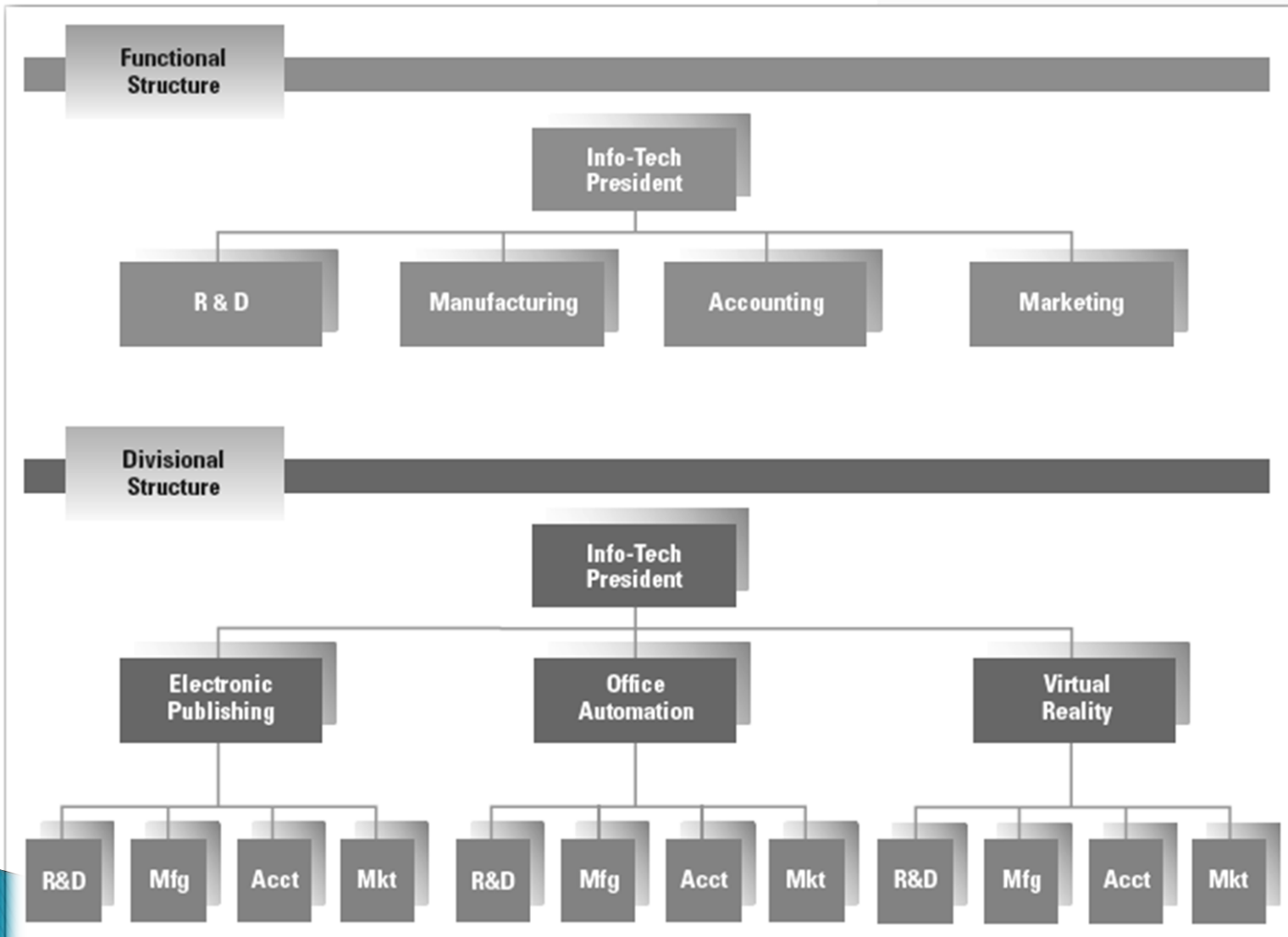
Functional Structure with Horizontal Linkages

- ▶ Karolinska Hospital – Page 58

Divisional Structure

- ▶ *Product structure* or *strategic business units (SBU)*
- ▶ Divisions organized according to products, services, product groups
- ▶ Good for achieving coordination across functional departments
- ▶ Suited for fast change
- ▶ Loses economies of scale
- ▶ Lacks technical specialization

Reorganization from Functional to Divisional



Divisional: Strengths & Weaknesses

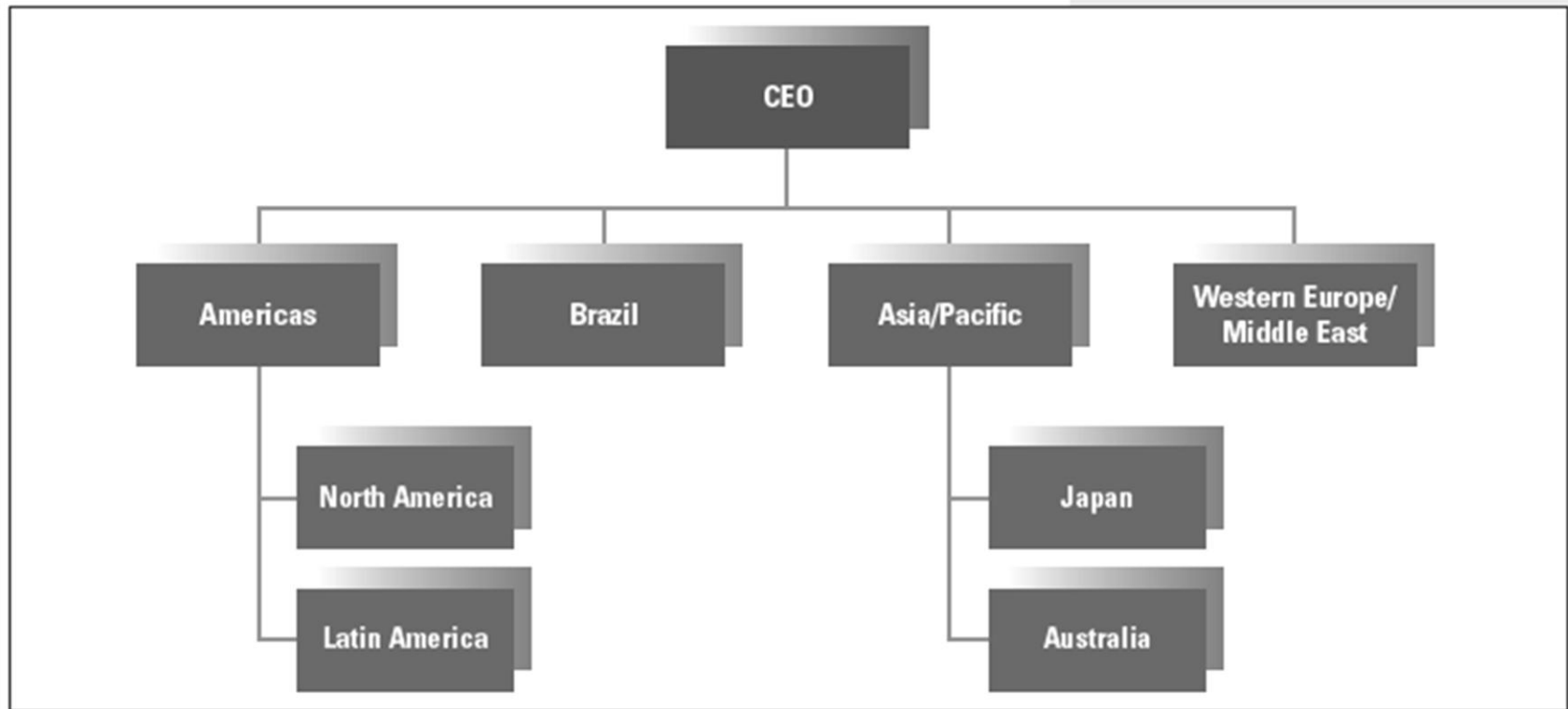
Strengths	Weaknesses
<ol style="list-style-type: none">1. Suited to fast change in unstable environment2. Leads to customer satisfaction because product responsibility and contact points are clear3. Involves high coordination across functions4. Allows units to adapt to differences in products, regions, customers5. Best in large organizations with several products6. Decentralizes decision making	<ol style="list-style-type: none">1. Eliminates economies of scale in functional departments2. Leads to poor coordination across product lines3. Eliminates in-depth competence and technical specialization4. Makes integration and standardization across product lines difficult

Source: Based on Robert Duncan, "What Is the Right Organization Structure?" *Organizational Dynamics* (Winter 1979).

Geographic Structure

- ▶ Organizing to meet needs of users/customers by geography
- ▶ Many multinational corporations are organized by country
- ▶ Focuses managers and employees on specific geographic regions
- ▶ Strengths and weaknesses similar to divisional organization

Sample Geographic Structure

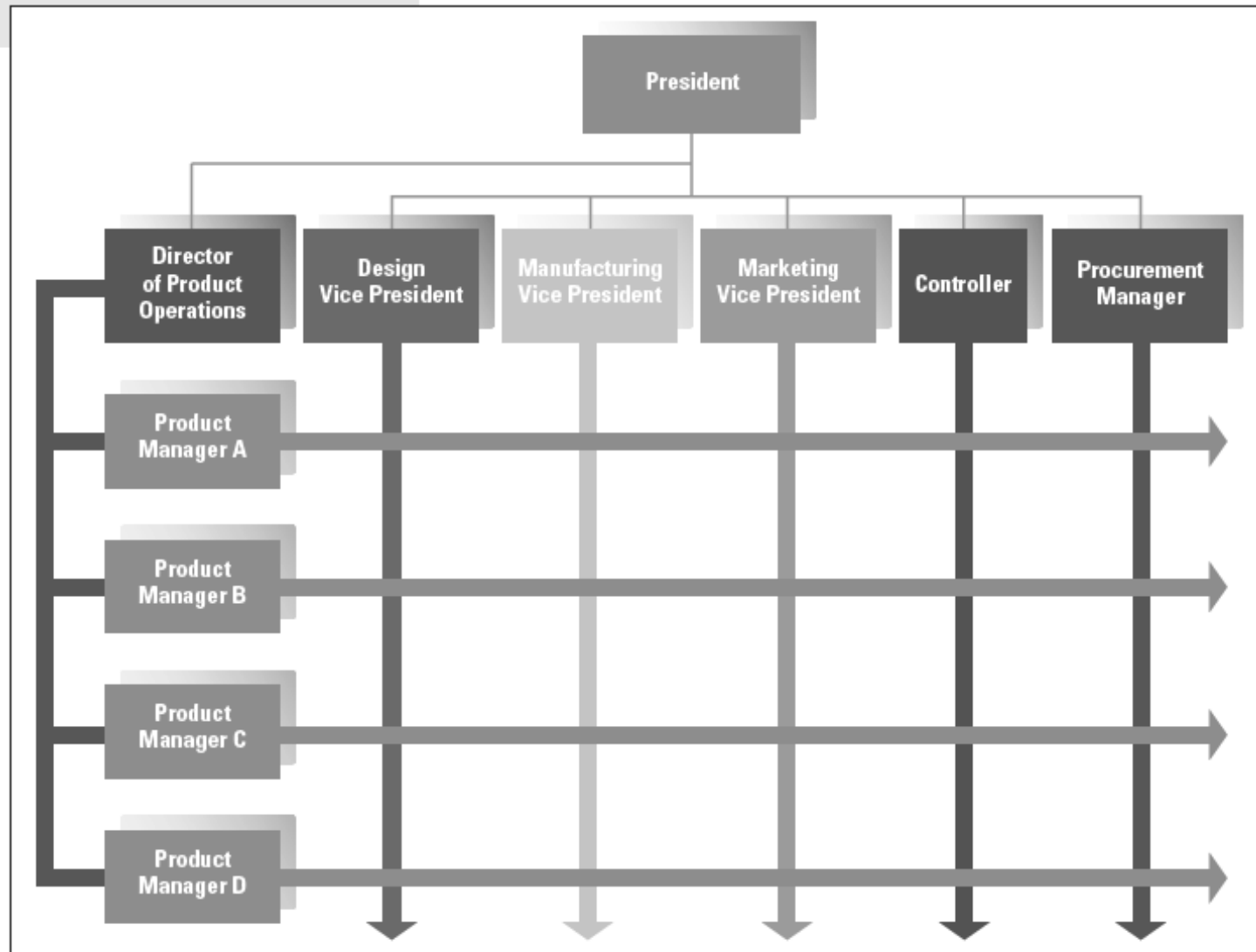


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Matrix Structure

- ▶ Multifocused with strong horizontal linkage
- ▶ Conditions for Matrix:
 - Share resources across the organization
 - Two or more critical outputs required: products and technical knowledge
 - Environment is complex and uncertain
- ▶ Allows organization to meet dual demands
- ▶ Largest weakness is that employees have two bosses and conflicting demands

Sample Matrix Organization



Conditions for Matrix Structure

- ▶ Need for shared and flexible use of people across products
- ▶ Two or more critical outputs like new products and technical knowledge
- ▶ The environment is complex and uncertain

Matrix: Strengths & Weaknesses

Strengths	Weaknesses
<ol style="list-style-type: none">1. Achieves coordination necessary to meet dual demands from customers2. Flexible sharing of human resources across products3. Suited to complex decisions and frequent changes in unstable environment4. Provides opportunity for both functional and product skill development5. Best in medium-sized organizations with multiple products	<ol style="list-style-type: none">1. Causes participants to experience dual authority, which can be frustrating and confusing2. Means participants need good interpersonal skills and extensive training3. Is time consuming; involves frequent meetings and conflict resolution sessions4. Will not work unless participants understand it and adopt collegial rather than vertical type relationships5. Requires great effort to maintain power balance

Source: Based on Robert Duncan, "What Is the Right Organization Structure? Decision Tree Analysis Provides the Answer," *Organizational Dynamics* (Winter 1979), 429.

Case

- ▶ Englandar Steel – Page 65

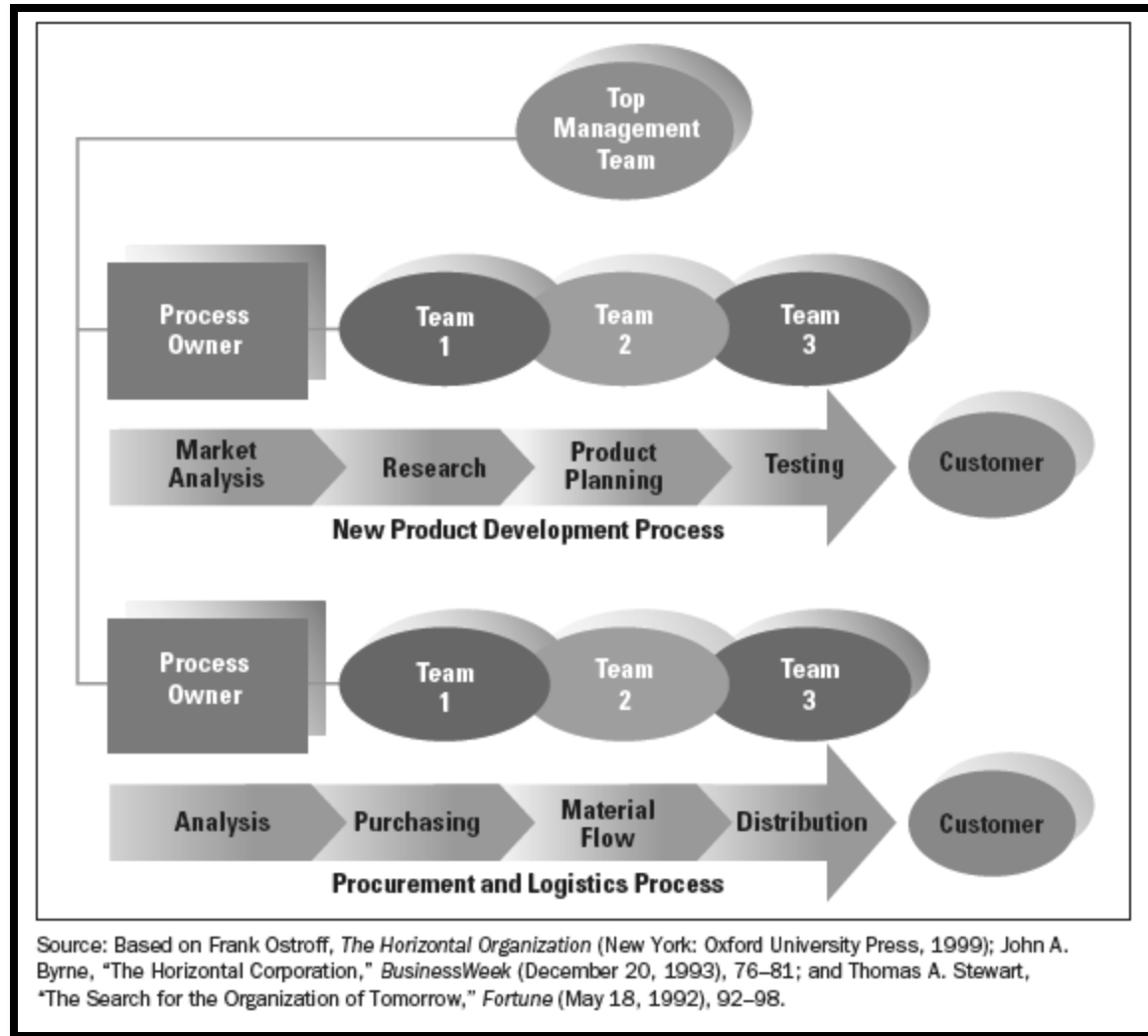
Horizontal Structure

- ▶ Organization around core processes
 - *Processes refers to tasks and activities*
- ▶ Shift towards horizontal structure during *reengineering or business process reengineering*
- ▶ Eliminates vertical hierarchy and departmental boundaries

Sample Horizontal Structure

- ▶ Page 67 Exhibit 2.13

Sample Horizontal Structure



Characteristics of Horizontal Structure

- ▶ Structure is created around cross-functional processes
- ▶ Self-directed teams, not individuals, are dominant players
- ▶ Process owners are responsible for entire process
- ▶ People on the team are given authority for decisions
- ▶ Can increase organization's flexibility
- ▶ Customers drive the organization, measured by customer satisfaction, employee satisfaction, and financial contribution
- ▶ Culture is one of openness, trust, and collaboration; focus on continuous improvement

Horizontal: Strengths & Weaknesses

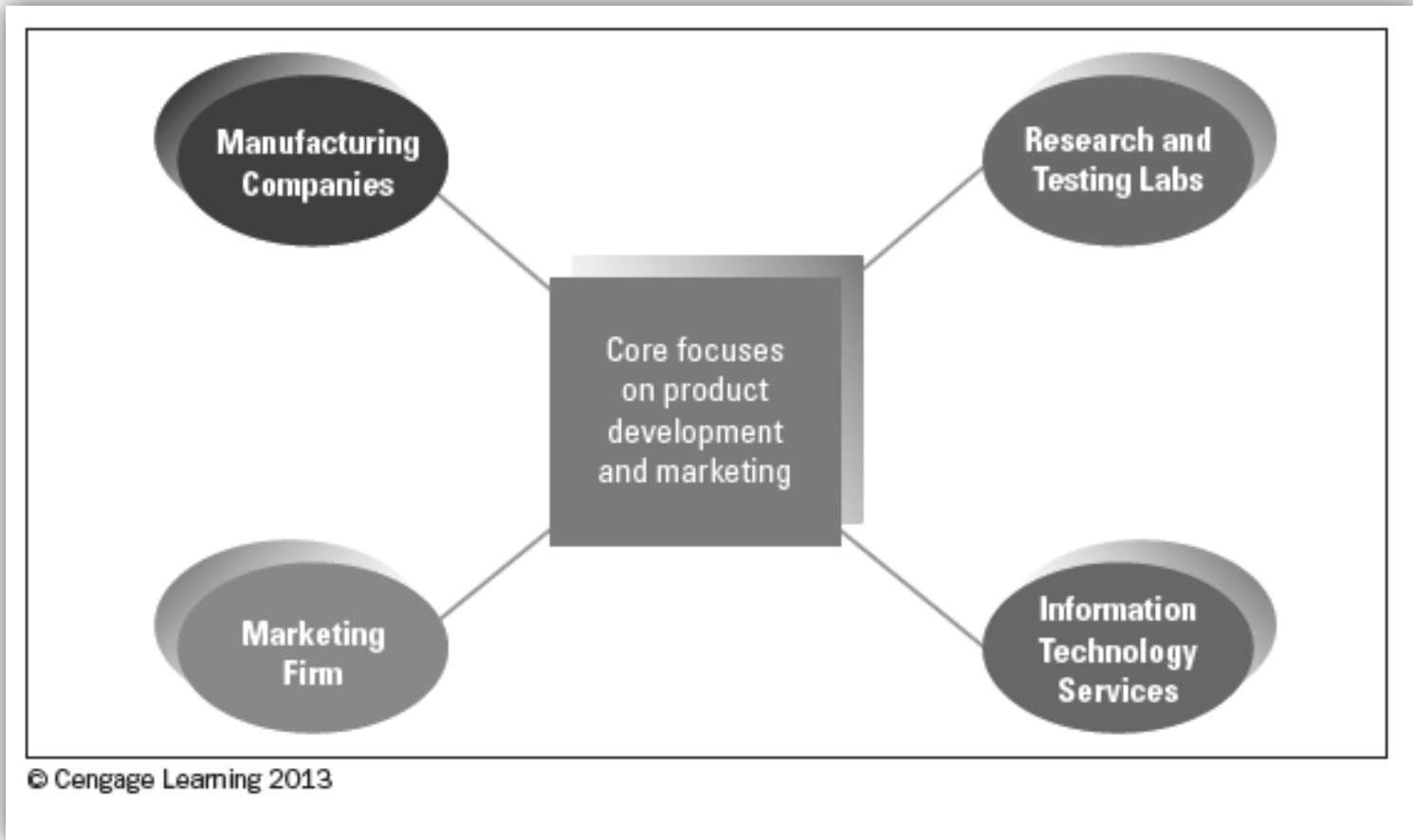
Strengths	Weaknesses
<ol style="list-style-type: none">1. Promotes flexibility and rapid response to changes in customer needs2. Directs the attention of everyone toward the production and delivery of value to the customer3. Each employee has a broader view of organizational goals4. Promotes a focus on teamwork and collaboration5. Improves quality of life for employees by offering them the opportunity to share responsibility, make decisions, and be accountable for outcomes	<ol style="list-style-type: none">1. Determining core processes is difficult and time consuming2. Requires changes in culture, job design, management philosophy, and information and reward systems3. Traditional managers may balk when they have to give up power and authority4. Requires significant training of employees to work effectively in a horizontal team environment5. Can limit in-depth skill development

Sources: Based on Frank Ostroff, *The Horizontal Organization: What the Organization of the Future Looks Like and How It Delivers Value to Customers* (New York: Oxford University Press, 1999); and Richard L. Daft, *Organization Theory and Design*, 6th ed. (Cincinnati, Ohio: South-Western, 1998), 253.

Virtual Networks and Outsourcing

- ▶ Extend horizontal coordination beyond the boundaries of the organization
- ▶ Most common strategy is *outsourcing*
 - Contract out certain tasks/functions
- ▶ Virtual or modular structures subcontract most of its major functions to separate companies
- ▶ The virtual network organization serves as a central hub with contracted experts

Virtual Network Example



Virtual Network Strengths and Weaknesses

Strengths	Weaknesses
<ol style="list-style-type: none">1. Enables even small organizations to obtain talent and resources worldwide2. Gives a company immediate scale and reach without huge investments in factories, equipment, or distribution facilities3. Enables the organization to be highly flexible and responsive to changing needs4. Reduces administrative overhead costs	<ol style="list-style-type: none">1. Managers do not have hands-on control over many activities and employees2. Requires a great deal of time to manage relationships and potential conflicts with contract partners3. There is a risk of organizational failure if a partner fails to deliver or goes out of business4. Employee loyalty and corporate culture might be weak because employees feel they can be replaced by contract services

Sources: Based on R.E. Miles and C.C. Snow, "The New Network Firm: A Spherical Structure Built on a Human Investment Philosophy," *Organizational Dynamics* (Spring 1995), 5–18; Gregory G. Dess, Abdul M. A. Rasheed, Kevin J. McLaughlin, and Richard L. Priem, "The New Corporate Architecture," *Academy of Management Executive* 9, no. 3 (1995), 7–20; N. Anand and R.L. Daft, "What Is the Right Organization Design?" *Organizational Dynamics* 36, no. 4 (2007), 329–344; and H.W. Chesbrough and D.J. Teece, "Organizing for Innovation: When Is Virtual Virtuous?" *Harvard Business Review* (August 2002), 127–134.

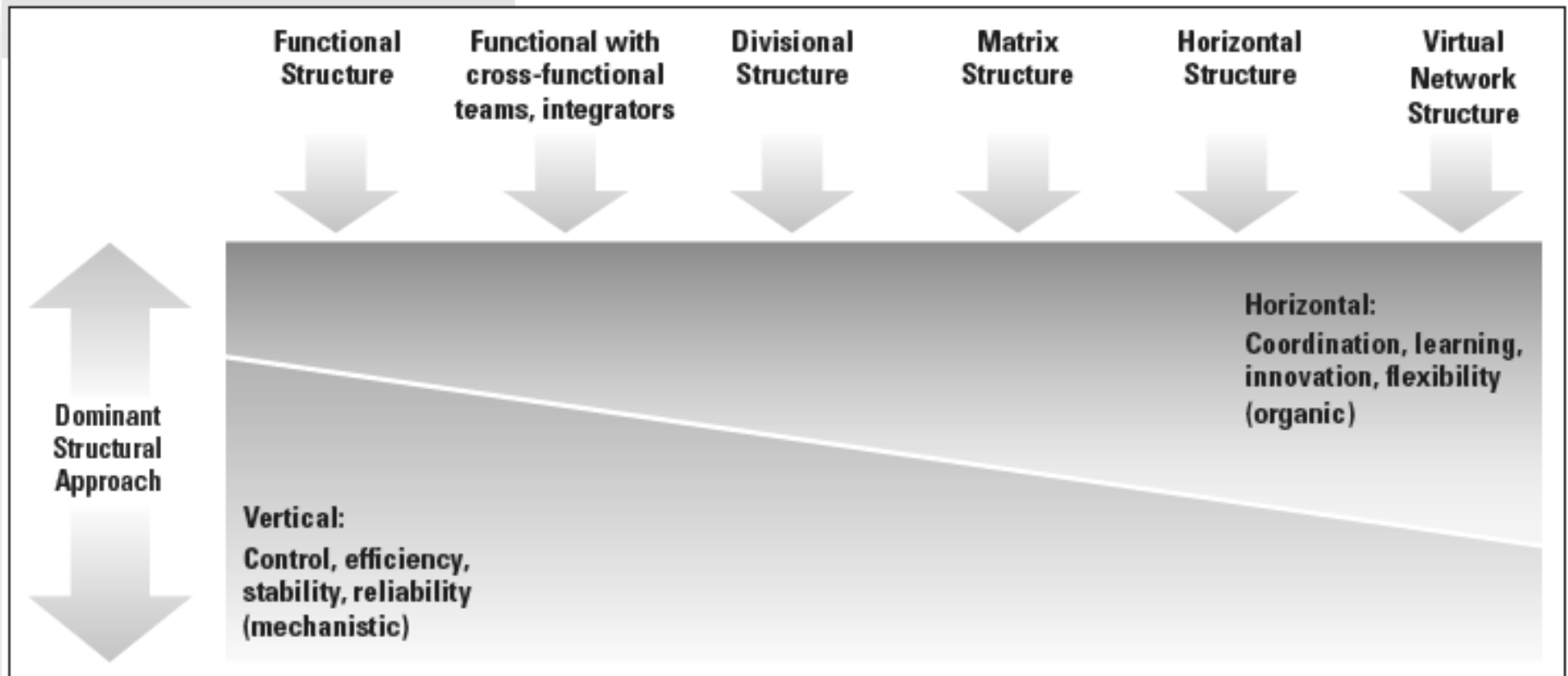
Hybrid Structure

- ▶ Combination of various structure approaches
- ▶ Tailored to specific needs
- ▶ Often used in rapidly changing environments
- ▶ Greater flexibility

Application of Structural Design

- ▶ Each structure meets different needs and is a tool that can help managers be more effective
- ▶ *Structural alignment* aligns structure with organizational goals
- ▶ Symptoms of *Structural Deficiency*:
 - Decision making is delayed or lacking quality
 - Organization cannot meet changing needs
 - Employee performance declines, needs are not meet
 - Too much conflict

Structure to Organization's Need for Efficiency vs. Learning



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Summary

- ▶ Structure must provide a framework, linking organization into whole
- ▶ Provide vertical and horizontal linkages
- ▶ Variety of alternatives for grouping
- ▶ Virtual network extends horizontal coordination
- ▶ Matrix structure attempts to achieve balance
- ▶ Managers must find right balance
- ▶ The purpose of the organization chart is to encourage and direct activities