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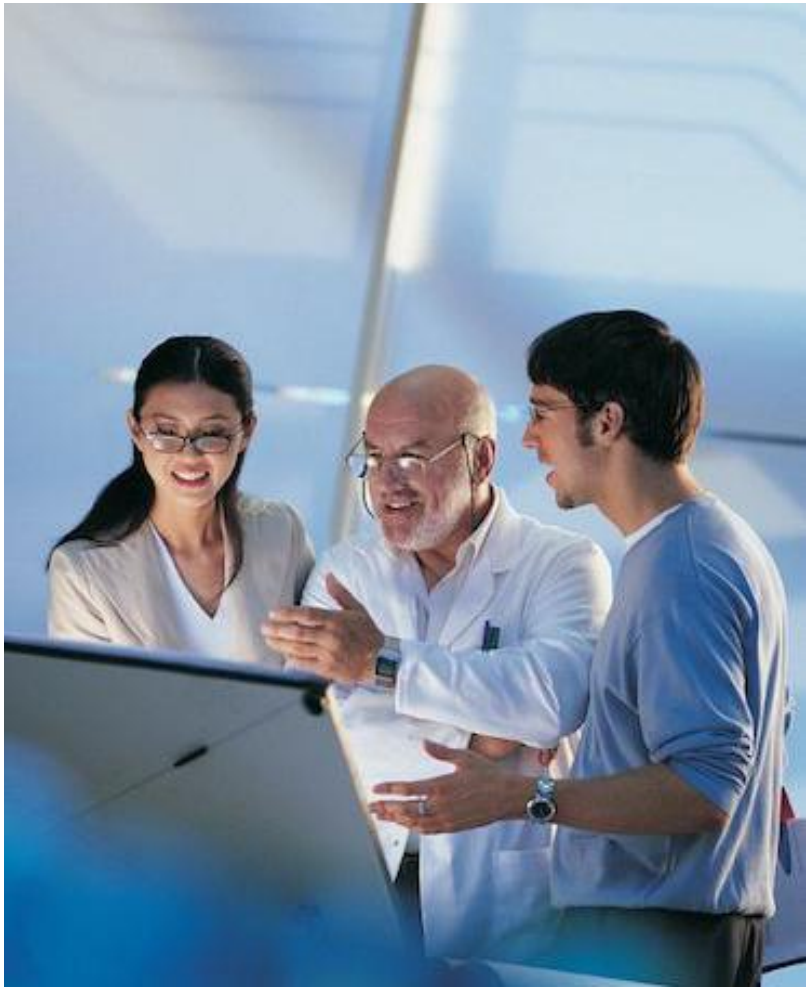
Designing Organizational Structures

Valve Corporation's Organizational Structure

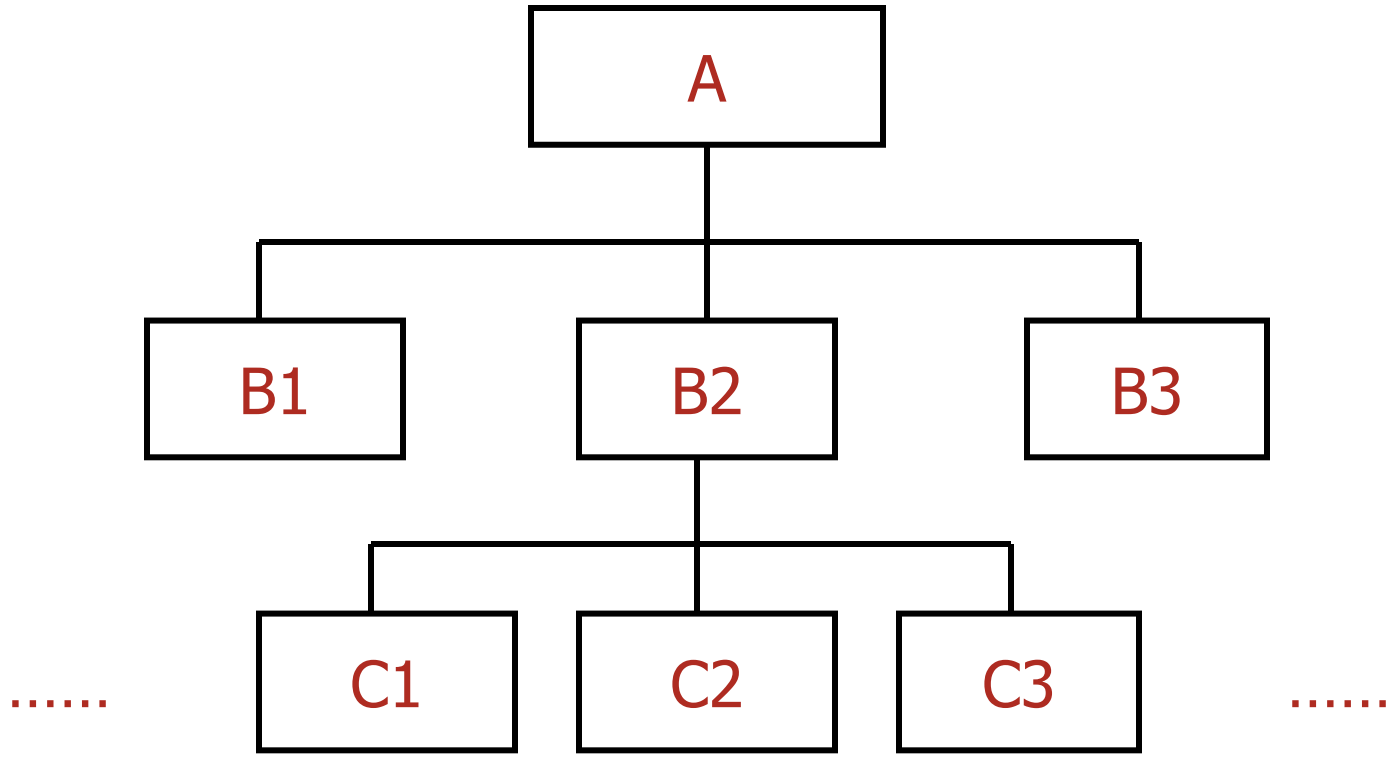
Valve Corporation, a software and entertainment company in USA, has a flat, organic organizational structure to leverage the creative and entrepreneurial potential of its 300 employees

Organizational Structure Defined

- Division of labor and patterns of coordination, communication, workflow, and formal power that direct organizational activities
- Relates to many OB topics (job design, teams, power)

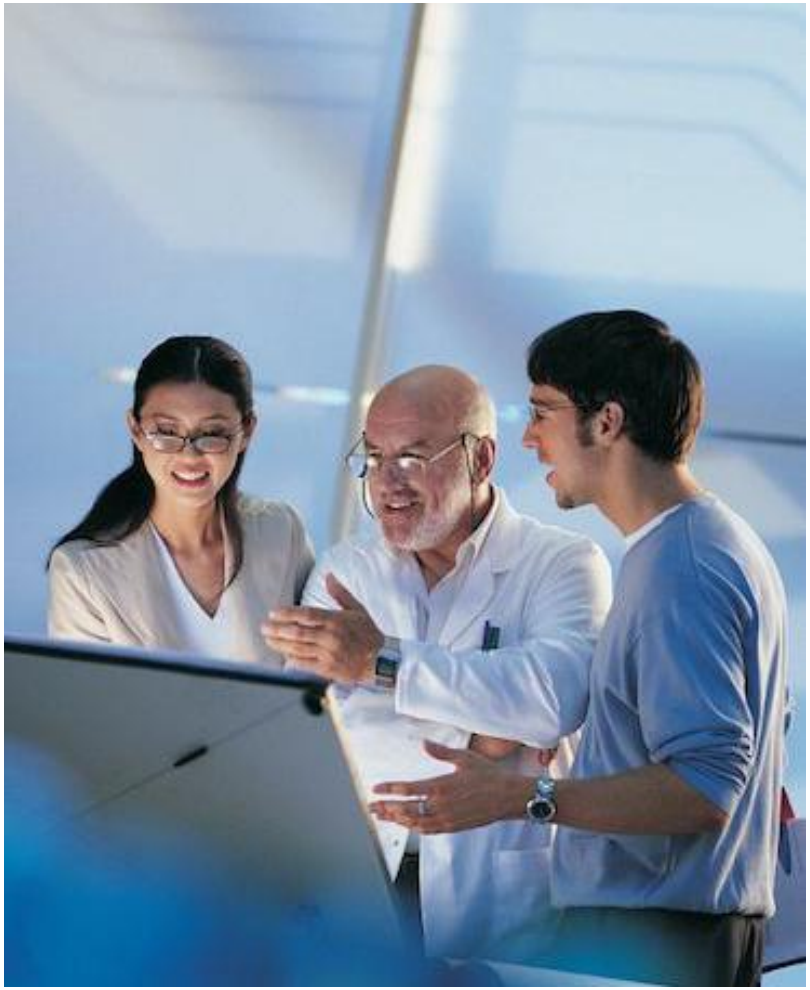


A Typical Organizational Chart



Division of Labor and Coordination

- Division of labor
  - Results in specialization, separate jobs for different people
  - Improves work efficiency
- Coordination of work
  - Value of division of labor is limited to ability to coordinate that work
  - Coordinating work can be costly
- Three coordinating mechanisms
  - informal communication
  - formal hierarchy
  - standardization



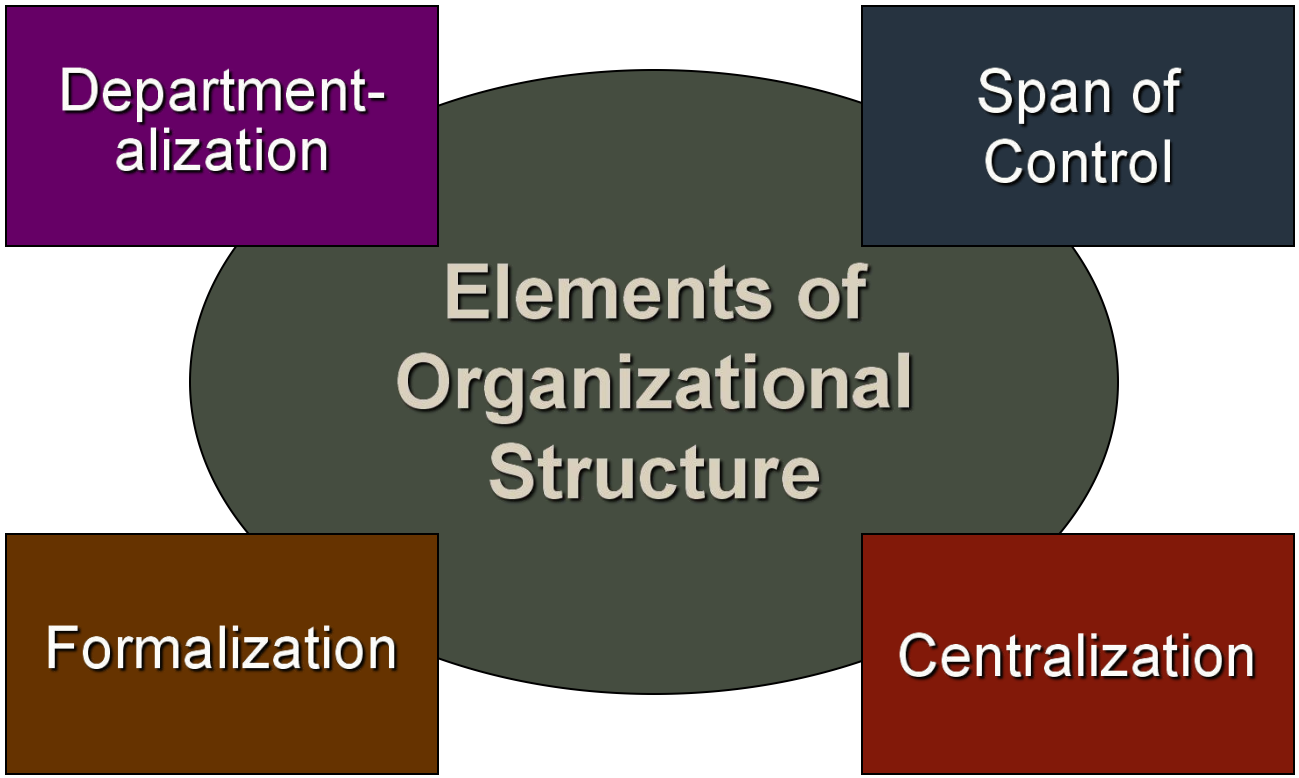
Coordination Through Informal Communication

- Informal communication coordinates work in all firms
- Vital in nonroutine and ambiguous situations
- Easiest in small firms, but technology extends its use in large firms
- Larger firms also apply informal communication through
  - Liaison roles
  - Integrator roles
  - Temporary teams

Other Coordinating Mechanisms

- Formal hierarchy
  - Direct supervision
  - Assigns legitimate power to manage others
  - Necessary in most firms, but has problems
- Standardization – create routine behavior/output
  - Standardized processes (e.g., job descriptions)
  - Standardized outputs (e.g., sales targets)
  - Standardized skills (e.g., training)

Elements of Organizational Structure



KenGen's Flatter Structure

KenGen, Kenya's leading electricity generation company, reduced its hierarchy from 15 layers to just 6 layers. "This flatter structure has reduced bureaucracy and it has also improved teamwork," explains KenGen executive Simon Ngure.

Span of Control

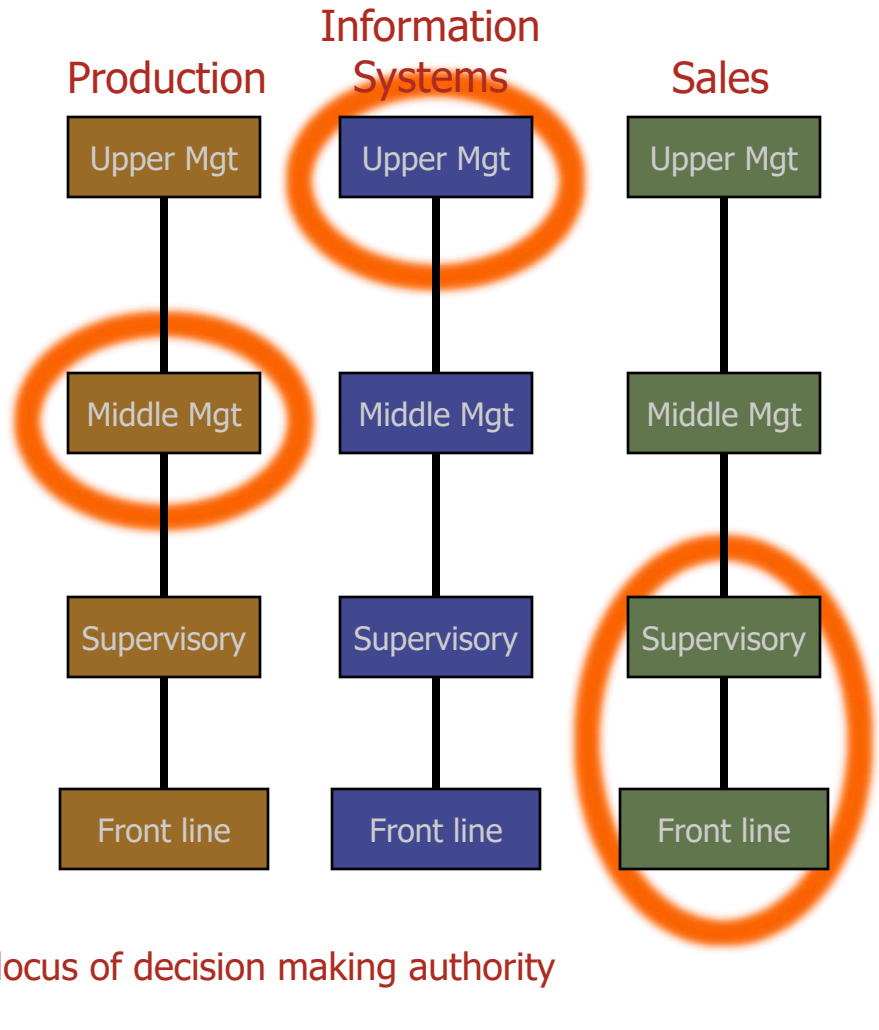
- Number of people directly reporting to the next level
- Wider span of control possible when:
  - Other coordinating mechanisms are present
  - Routine tasks
  - Low employee interdependence

Tall vs Flat Structures

- As companies grow, they:
  - Build a taller hierarchy
  - Widen span, or both
- Problems with tall hierarchies
  - Poorer upward information
  - Overhead costs
  - Focus power around managers, so staff feel less empowered

Centralization/Decentralization

- Centralization – Formal decision making authority is held by a few people, usually at the top
- Decentralization increases as companies grow
- Varying degrees of centralization in different areas of the company
  - Example



Formalization

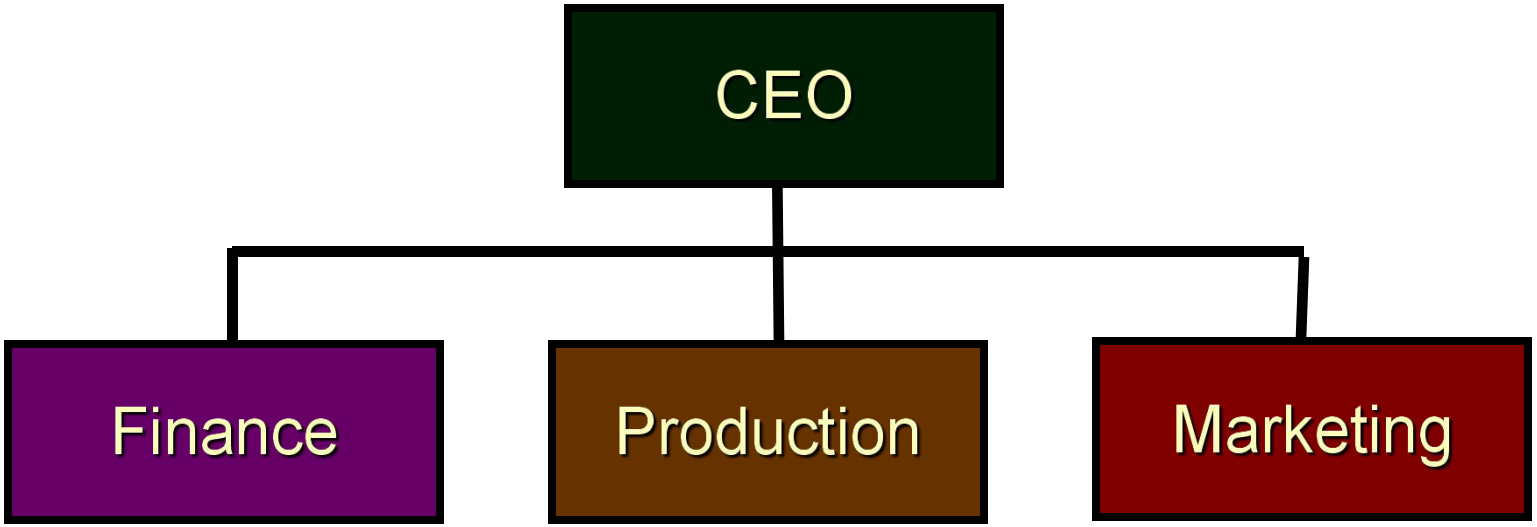
- Standardizing behavior through rules, procedures, training, etc
- Increases as firms get older, larger, regulated
- Problems with formalization
  - Less organizational flexibility
  - Discourages organizational learning/creativity
  - Less work efficiency
  - Increases job dissatisfaction and work stress
  - Rules/procedures become focus of attention

Mechanistic vs. Organic Structures

- Mechanistic Structure
  - Narrow span of control
  - High centralization
  - High formalization
- Organic Structure
  - Wide span of control
  - Decentralized decisions
  - Low formalization

Functional Organizational Structure

- Organizes employees around specific knowledge or other resources (e.g., marketing, production)

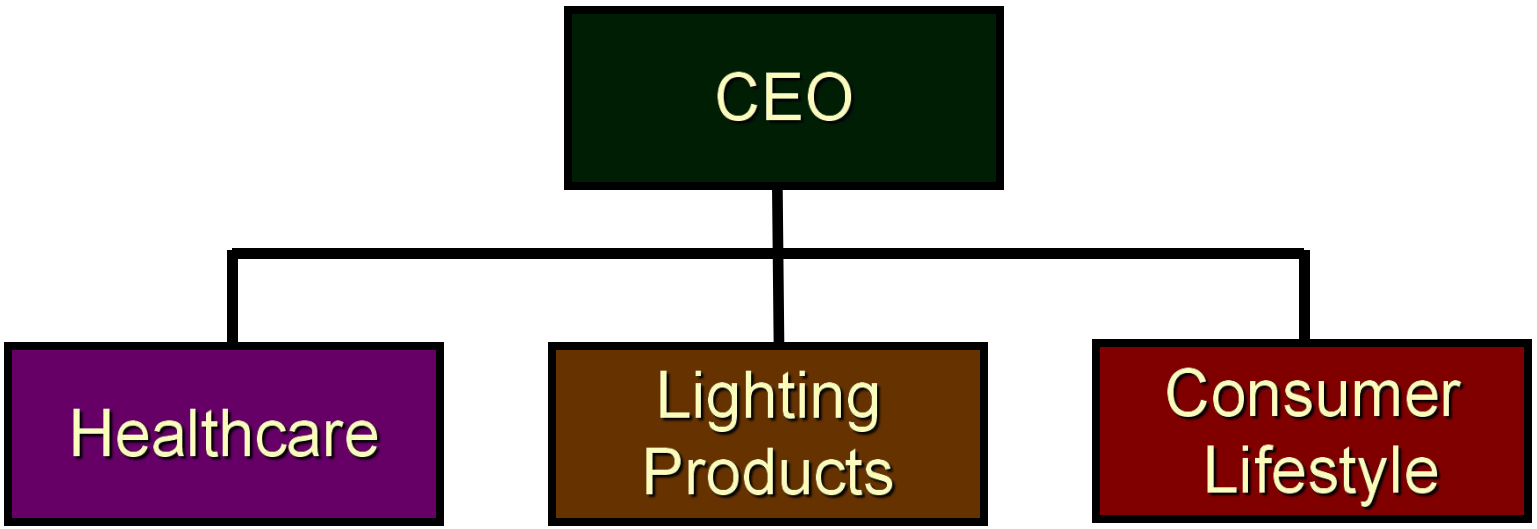


Evaluating Functional Structures

- Benefits
  - Economies of scale
  - Supports professional identity and career paths
  - Easier supervision
- Limitations
  - Emphasizes subunit more than organizational goals
  - Higher dysfunctional conflict
  - Poorer coordination – requires more controls

Divisional Structure

- Organizes employees around outputs, clients, or geographic areas



Divisional Structure

- Best type of divisional structure depends on environmental diversity or uncertainty
- Geographic structures becoming less common because:
  - Less need for local representation
  - Reduced geographic variation
  - More global clients

Evaluating Divisional Structures

- Benefits
  - Building block structure – accommodates growth
  - Focuses on markets/products/clients

- Limitations
  - Duplication, inefficient use of resources
  - Silos of knowledge – expertise isolated across divisions
  - Executive power affected by shifting divisional structure – common with complex environment

Team-Based Structure

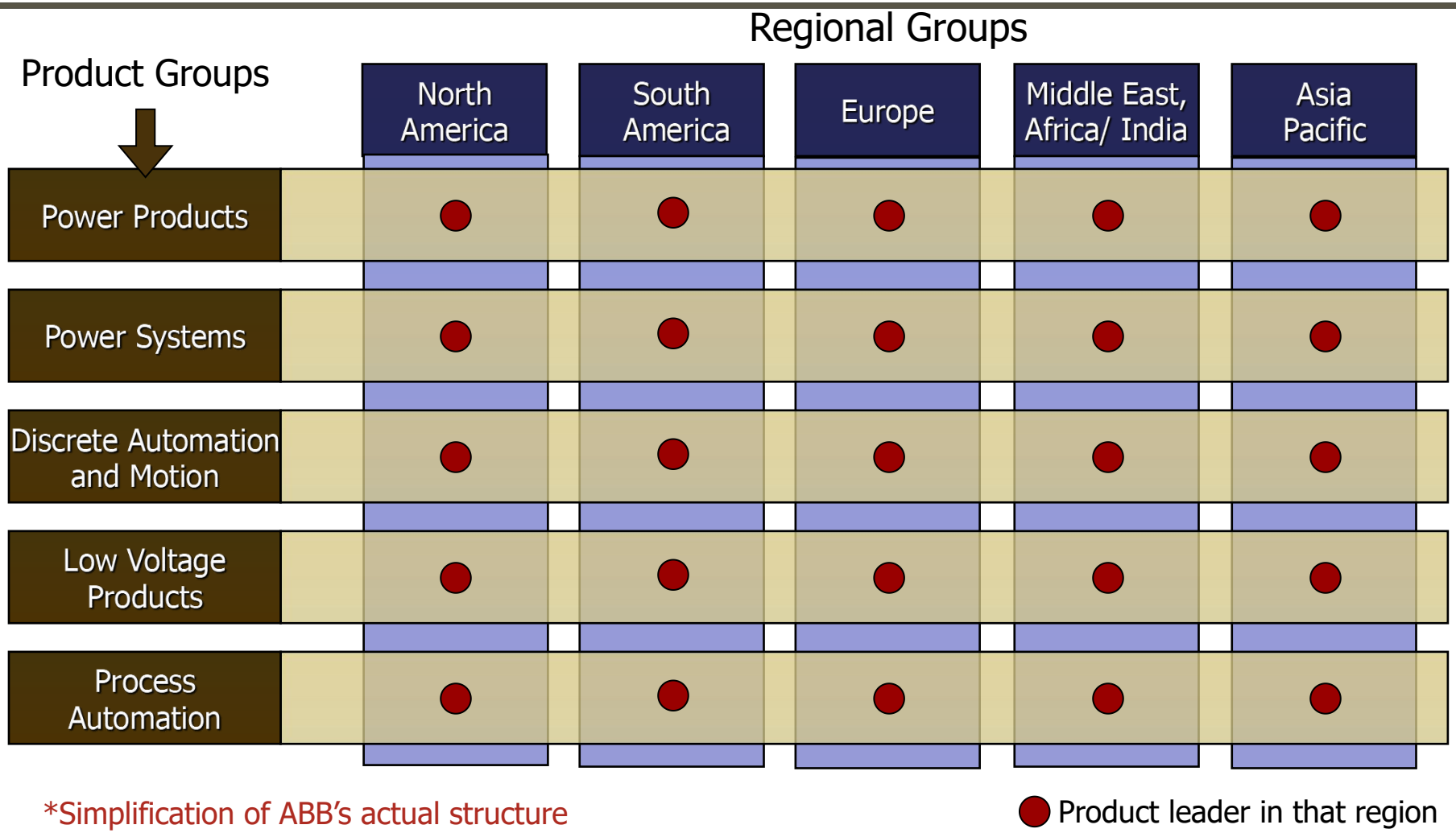
- Self-directed work teams organized around work processes
- Typically organic structure
- Usually found within divisionalized structure

Evaluating Team-Based Structures

- Benefits
  - Responsive, flexible
  - Lower admin costs
  - Quicker, more informed decisions

- Limitations
  - Interpersonal training costs
  - Slower coordination during team development
  - Role ambiguity increases stress
  - Team leader issues – less power, ambiguous roles/career
  - Duplication of resources

ABB's* Geographic-Product Matrix Structure



Evaluating Matrix Structures

- Benefits
  - Uses resources and expertise effectively
  - Potentially better communication, flexibility, innovation
  - Focuses specialists on clients and products
  - Supports knowledge sharing within specialty
  - Solution when two divisions have equal importance
- Limitations
  - More conflict among managers who share power
  - Two bosses dilutes accountability
  - More conflict, organizational politics, and stress

External Environment & Structure

Dynamic	Stable
• High rate of change • Use team-based, network, or other organic structure	• Steady conditions, predictable change • Use mechanistic structure

Complex	Simple
• Many elements (such as stakeholders) • Decentralize	• Few environmental elements • Less need to decentralize

External Environment & Structure

Diverse

- Several products, clients, regions
- Use divisional form aligned with the diversity

Integrated

- Single product, client, place
- Use functional structure, or geographic division if global

Hostile

- Competition and resource scarcity
- Use organic structure for responsiveness

Munificent

- Plenty of resources and product demand
- Less need for organic structure

Effects of Organizational Size

As organizations grow, they:

1. Increase division of labor (job specialization)
2. Increase standardization and formal hierarchy as coordinating mechanisms
3. Become more decentralized

Technology and Structure

- Mechanisms/processes for making products or services
- Two contingencies:
  - Variability – the number of exceptions to standard procedure that tend to occur
  - Analyzability – the predictability or difficulty of the required work

Organizational Strategy

- Structure follows strategy
  - Strategy points to the environments in which the organization will operate
  - Leaders decide which structure to apply
- Innovation strategy
  - Providing unique products or attracting clients who want customization
- Cost leadership strategy
  - Maximize productivity in order to offer competitive pricing