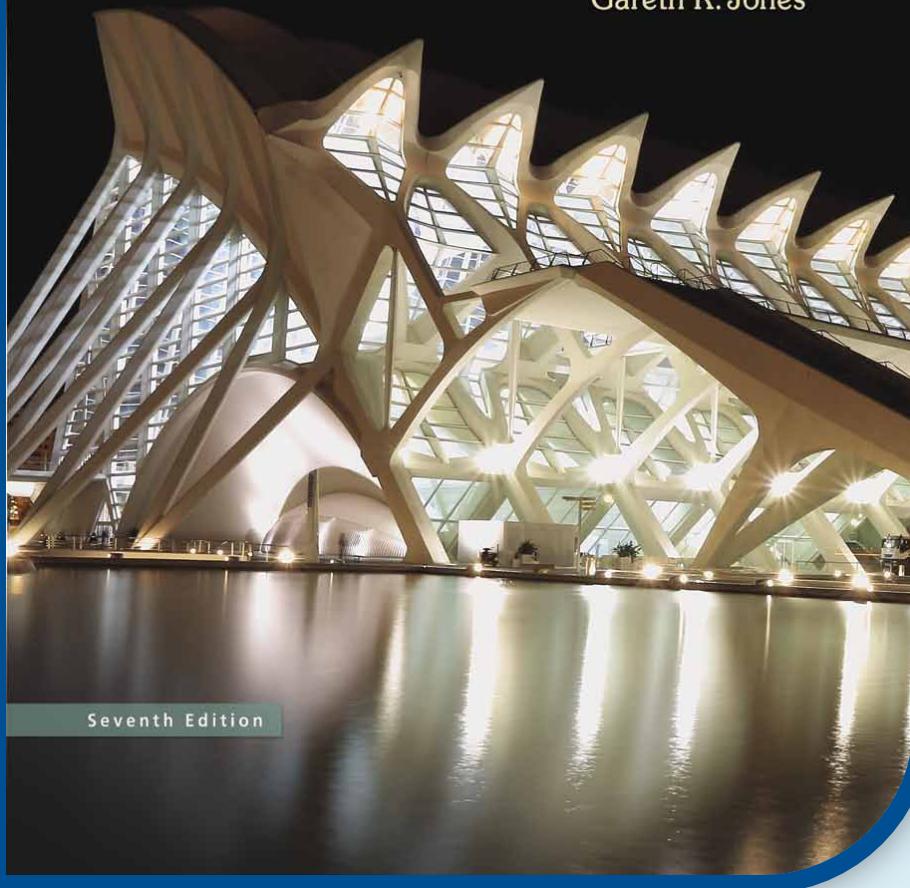


# Organizational Theory, Design, and Change

Gareth R. Jones



## Designing Organizational Structure: Specialization and Coordination

# Learning Objectives

- Explain why most organizations initially have a functional structure and why, over time, problems arise with this structure that require a change to a more complex structure
- Distinguish among three kinds of divisional structures (product, geographic, and market), describe how a divisional structure works, and explain why many organizations use this structure to coordinate organizational activities and increase their effectiveness

# Learning Objectives

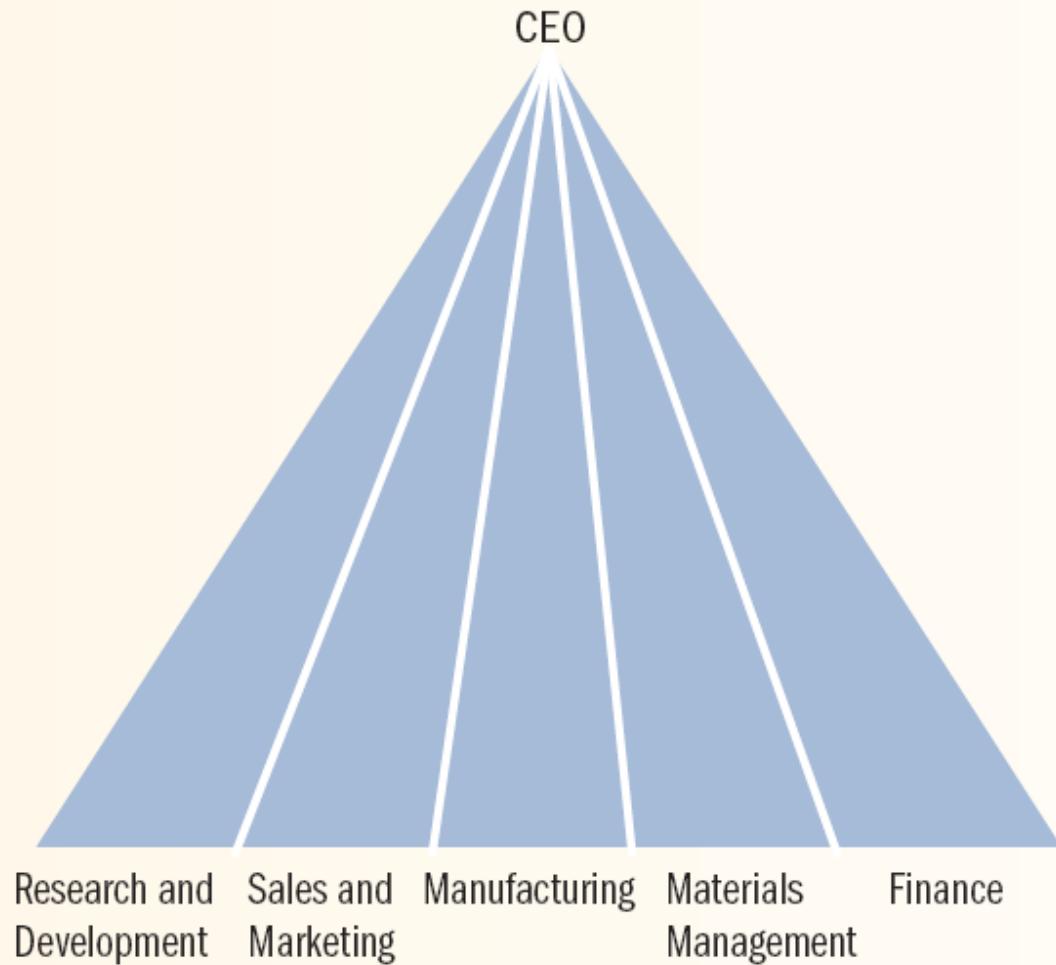
- Discuss how the matrix and product team structures differ, and why and when they are chosen to coordinate organizational activities
- Identify the unique properties of network structures and the conditions under which they are most likely to be selected as the design of choice

# Functional Structure

- It is a design that groups people together on the basis of their common expertise and experience or because they use the same resources
- Functional structure is the bedrock of horizontal differentiation
- An organization groups tasks into functions to increase the effectiveness with which it achieves its goals

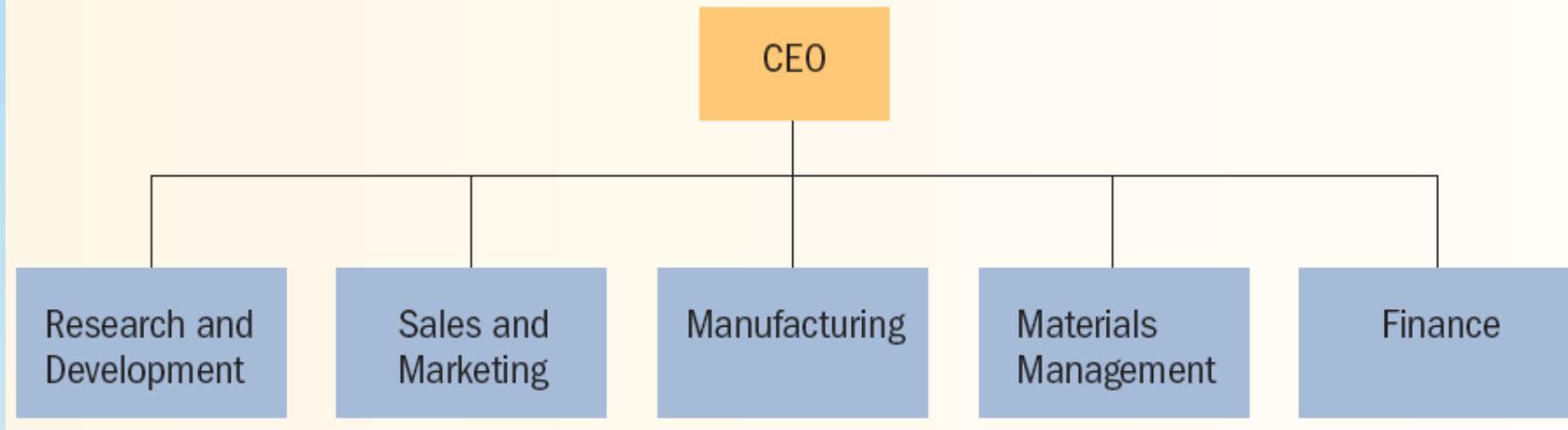
# Figure 6.1 – Functional Structure

A. This format shows that each function has its own hierarchy.



# Figure 6.1 – Functional Structure (cont.)

B. This format shows the position of each function within the organization's hierarchy.



# Advantages of a Functional Structure

- Provides people with the opportunity to learn from one another and become more specialized and productive
- People who are grouped together by common skills can supervise one another and control each other's behavior
- People develop norms and values that allow them to become more effective at what they do

# Control Problems in a Functional Structure

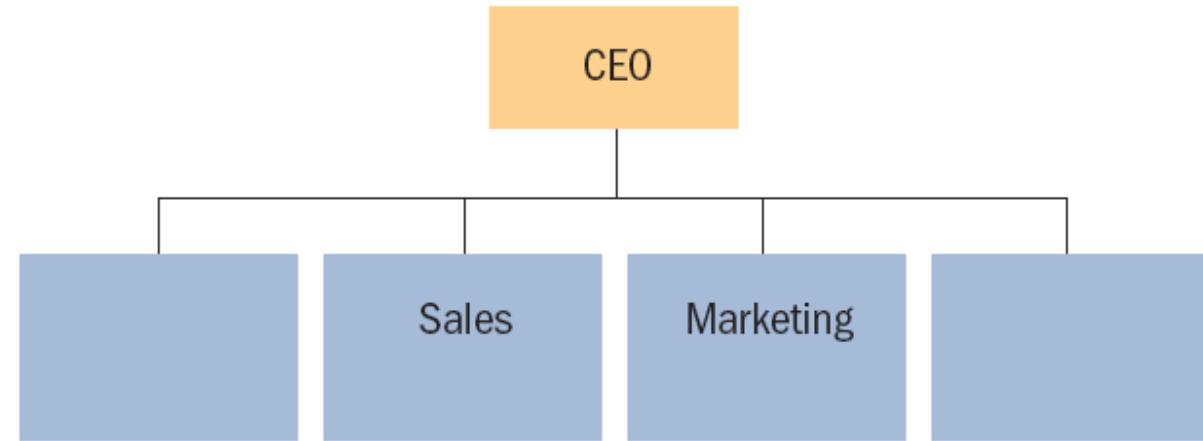
- Communication problems
  - Reduce coordination between subunits
- Measurement problems
  - The information to measure the contribution of any function is difficult to obtain
- Location problems
  - As the company grows, it may need to establish manufacturing and sales facilities in different geographic areas. Geographic spread can pose control problems.
- Customer problems
  - As company grows new customers with different needs are attracted to the organization.
- Strategic problems
  - As company grows, it becomes more complex.

# Solving the Control Problems in a Functional Structure

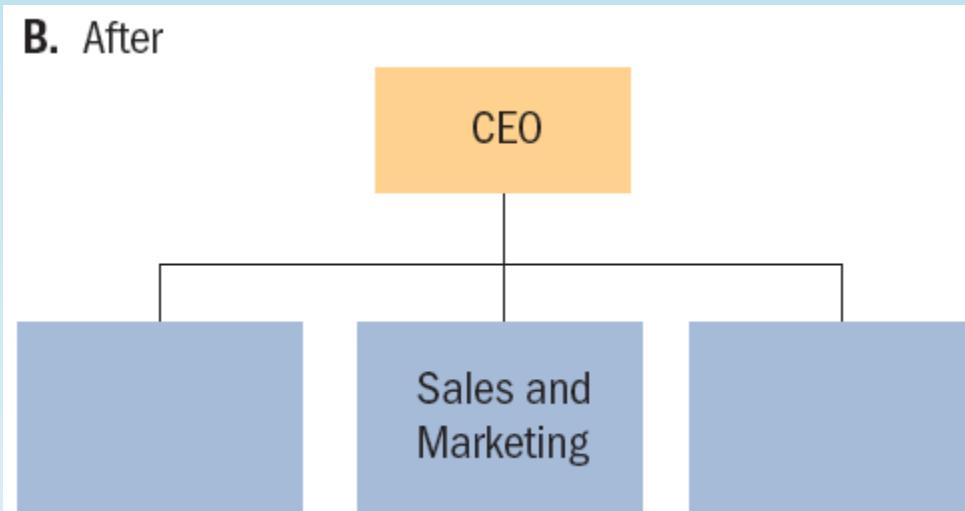
- Managers can solve control problems by redesigning the functional structure to increase integration between functions
  - Instead of having separate functions with their own hierarchies, many organizations have recognized the need to alter this design and have combined those activities into one function.

## Figure 6.2 – Improving Integration in a Functional Structure by Combining Sales and Marketing

A. Before



B. After



# From Functional Structure to Divisional Structure

- Functional structure is appropriate if the organization:
  - Limits itself to producing a small number of similar products
  - Produces those products in one or a few locations
  - Sells them to only one general type of client or customer

# From Functional Structure to Divisional Structure (cont.)

- As organizations grow, they produce more products and serve many different types of customers
- A new structure is needed that will
  - Increase manager's control of individual subunits
  - Integrate the operation of the whole company and ensure subunits are meeting organizational goals

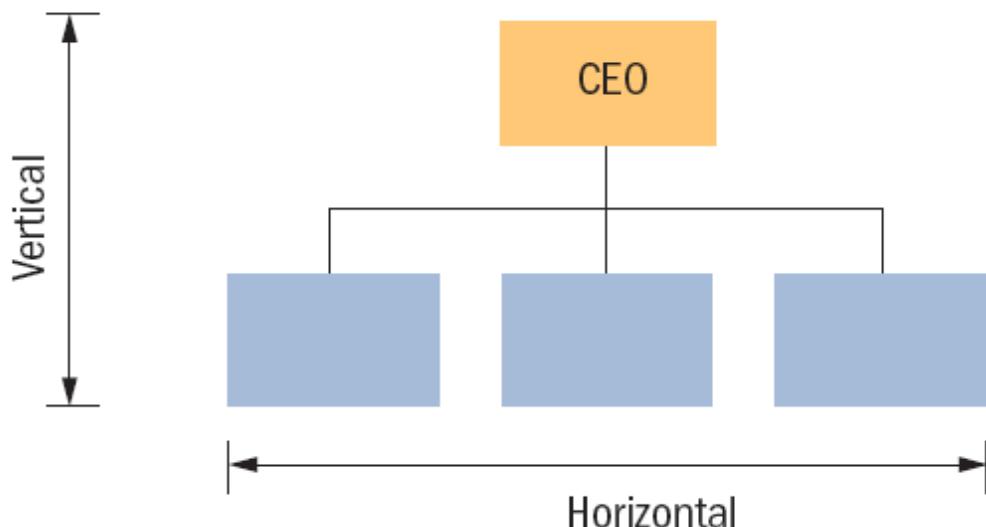
# Differentiation and Integration

- While adopting a more complex structure, managers focus on three design choices and the move to a complex structure normally involves changes in all three characteristics. These are:
- **Increasing vertical differentiation** by increasing the levels in the hierarchy, centralizing decision making, and increasing control with rules.
- **Increasing horizontal differentiation**, product teams, or divisions to overlay a functional grouping.
- **Increasing integration**, using integrating mechanisms, such as task forces and teams, to improve coordination between subunits and motivation.

# Figure 6.3 – Differentiation and Integration: How Organizations Increase Control Over Their Activities

A. Vertical differentiation:  
Creating a hierarchy of authority to improve coordination *vertically* between subunits

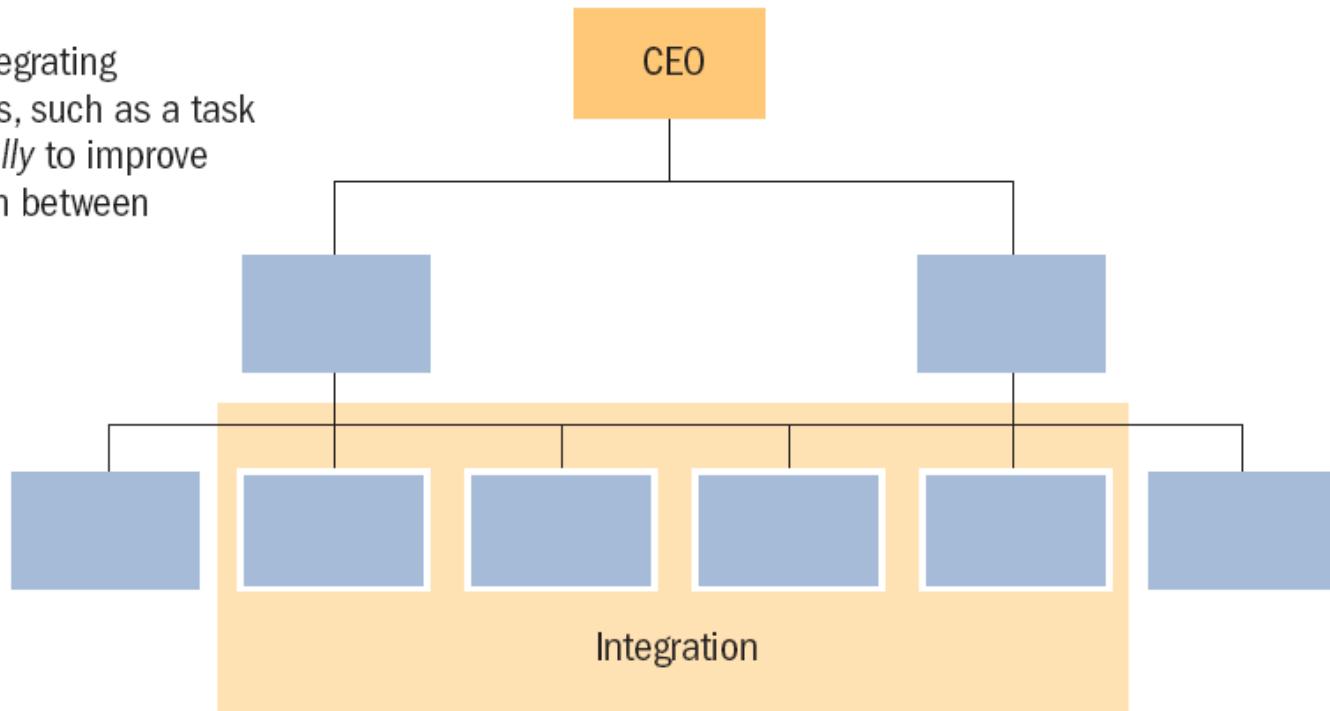
Horizontal differentiation:  
Creating separate subunits to increase control *within* a subunit



# Figure 6.3 – Differentiation and Integration: How Organizations Increase Control Over Their Activities (cont.)

## B. Integration:

Creating integrating mechanisms, such as a task force, laterally to improve coordination between subunits



# Moving to a Divisional Structure

- Organizations most commonly adopt the divisional structure to solve control problems that arise with too many products, regions, or customers
- Divisional structure: A structure in which functions are grouped together according to the specific demands of products, markets, or customers

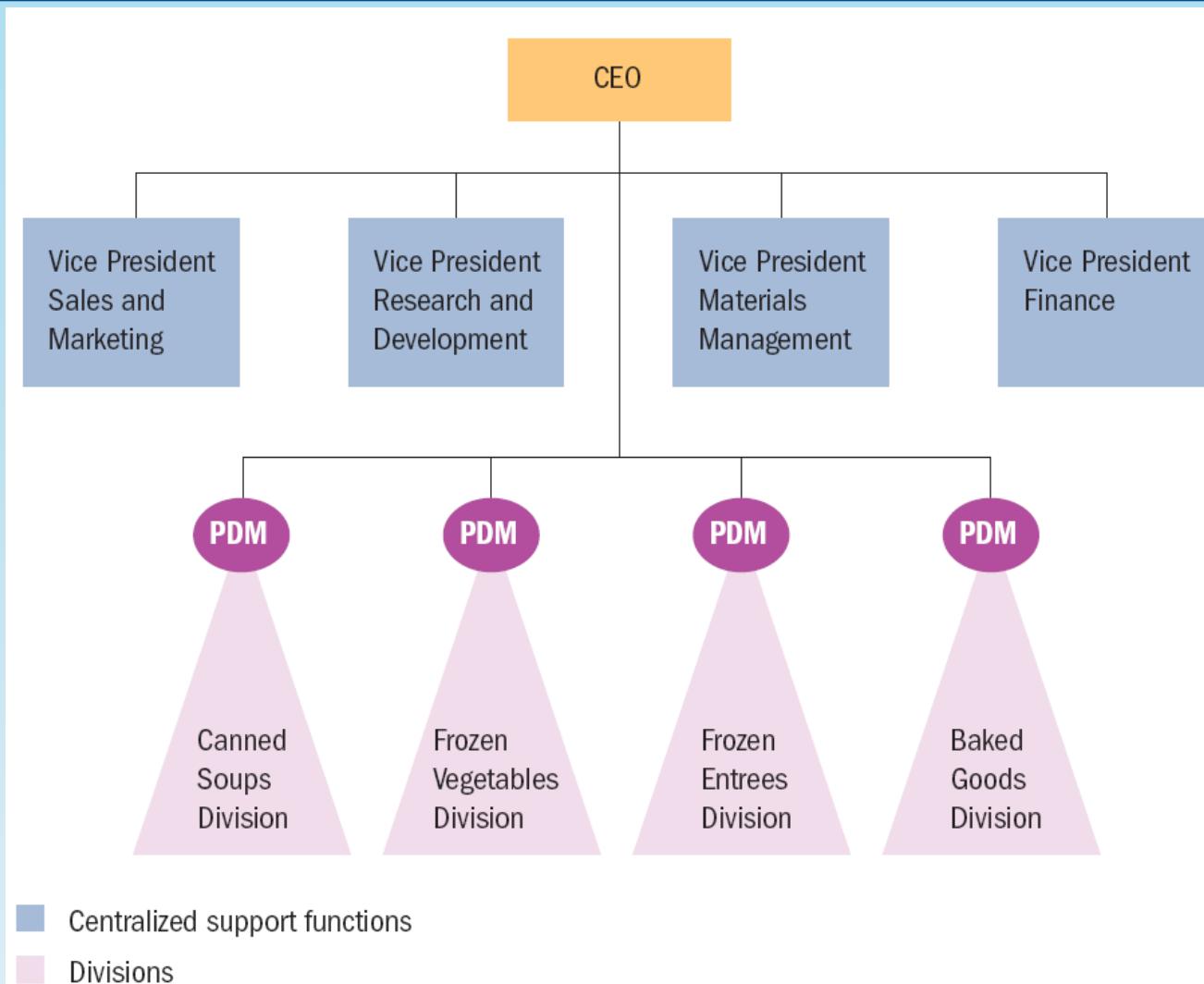
# Product Structure

- Product structure: A divisional structure in which products (goods or services) are grouped into separate divisions according to their similarities or differences
- Organizations need to decide how to coordinate its product activities with support functions

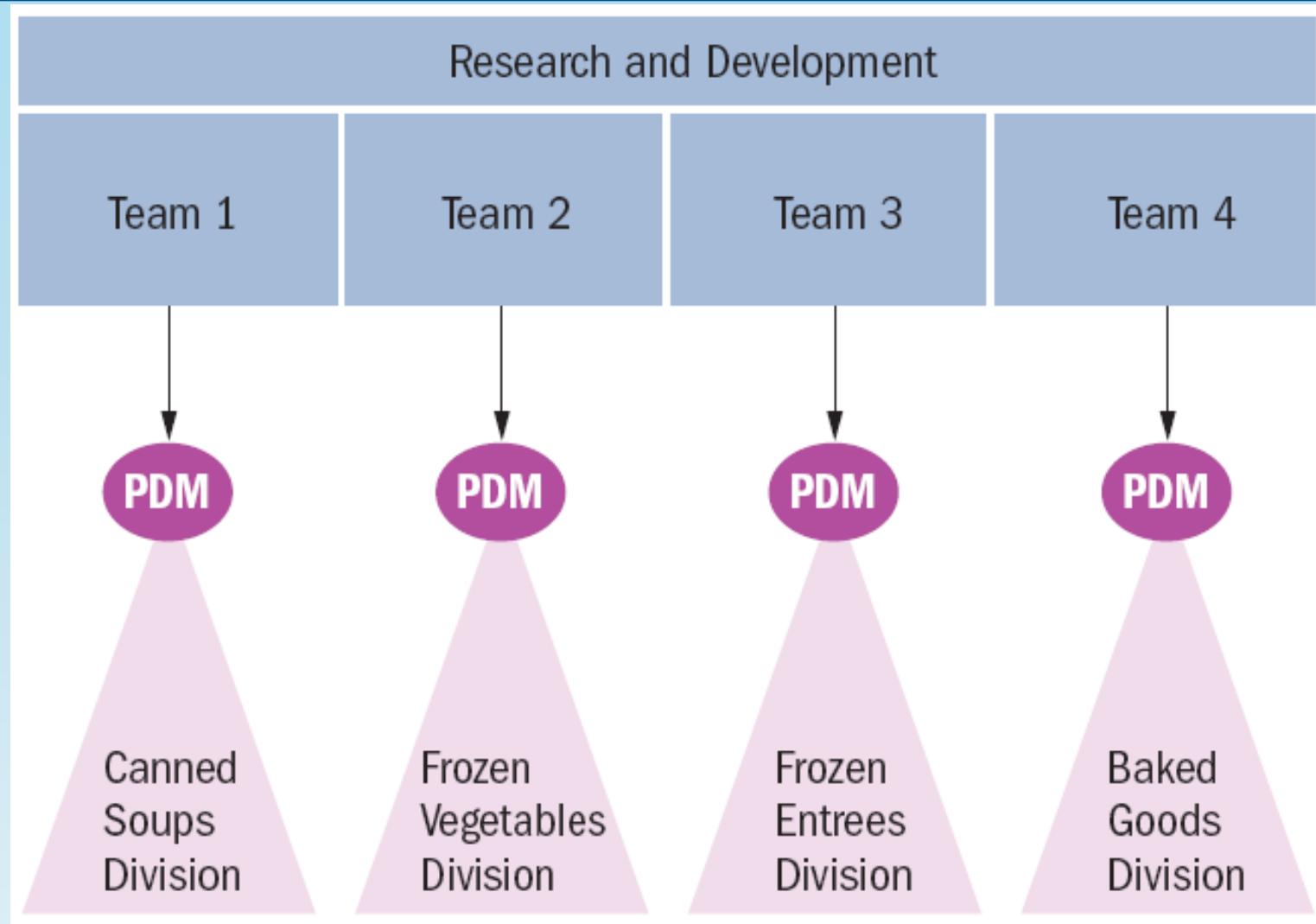
# Product Structure (cont.)

- Product division structure: A centralized set of support functions service the needs of a number of different product lines
- Each product division uses the services of the central support function
- Support function is divided into product-oriented teams who focus on the needs of one particular product division

# Figure 6.4 – Product Division Structure



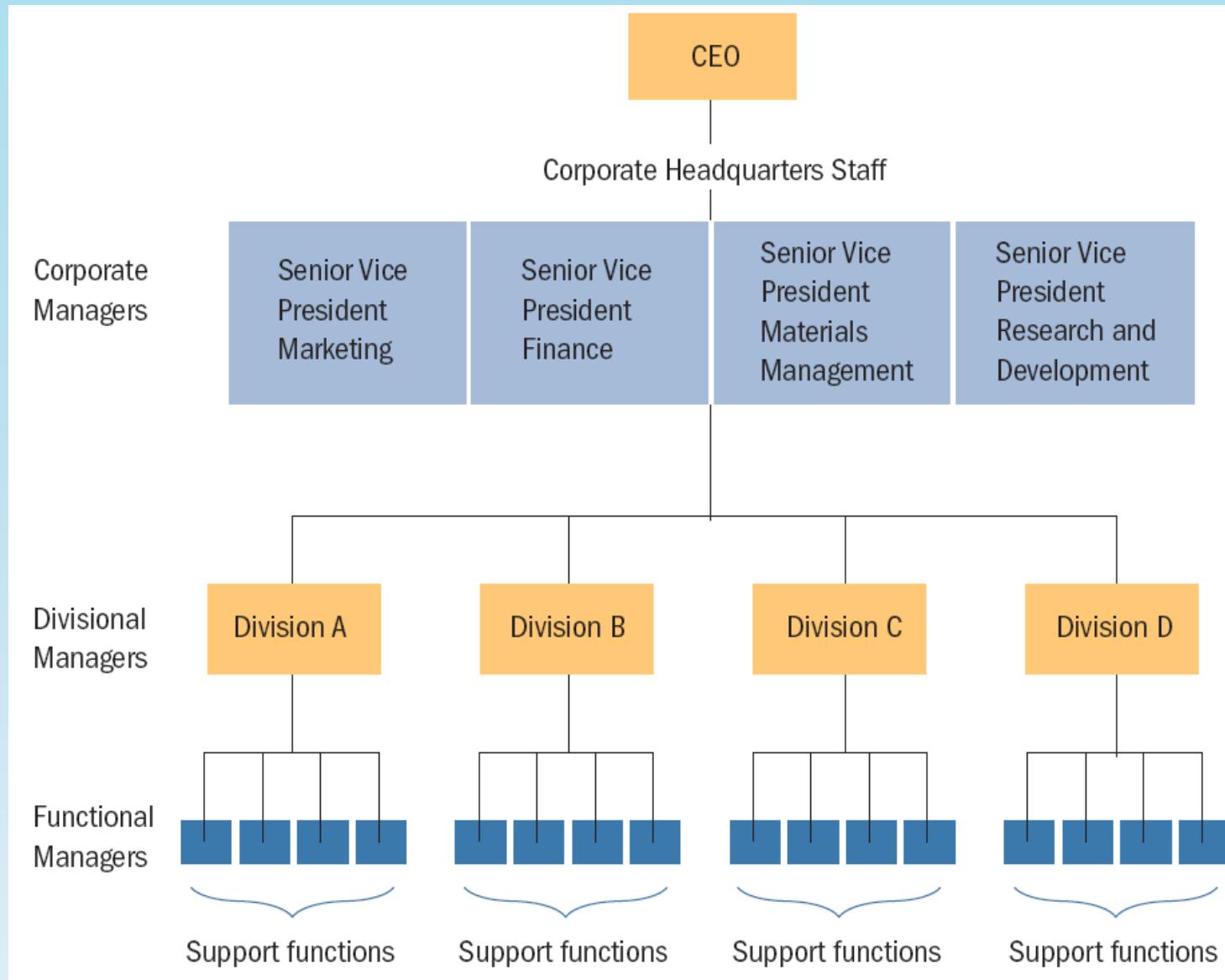
## Figure 6.5 – Assignment of Product–Oriented Functional Teams to Individual Divisions



# Product Structure (cont.)

- Multidivisional structure: A structure in which support functions are placed in self-contained divisions
  - It has two innovative advances that overcome the control problems
    - Independence of each division
    - Corporate headquarters staff: Responsible for overseeing the activities of the managers heading each division

# Multidivisional Structure



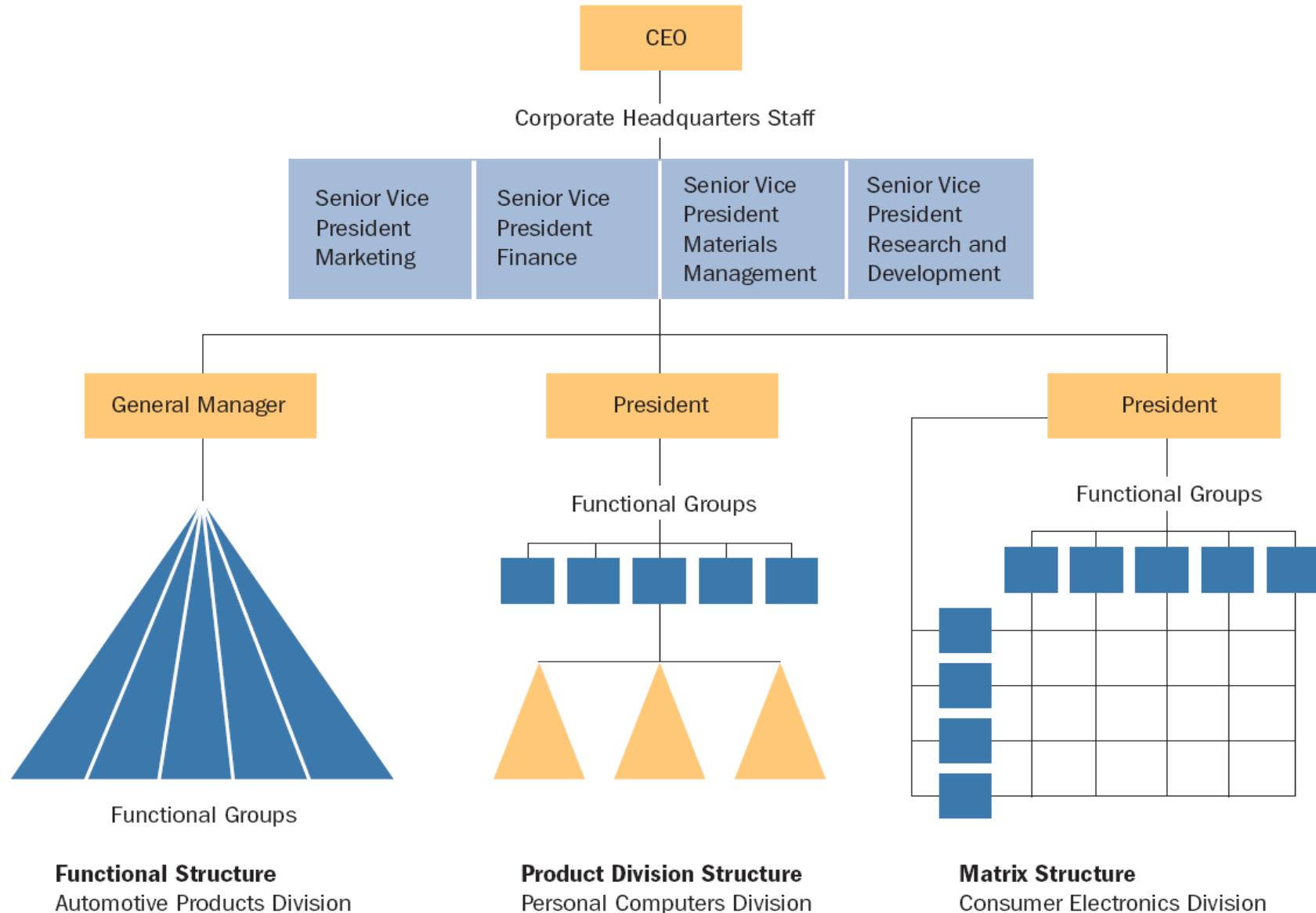
# Advantages of a Multidivisional Structure

- **Increased Organizational Effectiveness:** In a multidivisional structure there is a clear division of labor between corporate and divisional managers with divisional managers being responsible for the day-to-day operations of their respective divisions and corporate managers being responsible for long-term planning for the corporation as a whole. This leads to greater organizational effectiveness.
- **Increased Control:** The extra control provided by the corporate office encourages the stronger pursuit of internal organizational efficiency by divisional managers. The divisional managers being accountable to the corporate managers may curb their inclination to increase the size of their personal staff and help rein in costs.

# Advantages of a Multidivisional Structure

- **Profitable Growth:** When individual profitability can be clearly evaluated, then corporate headquarters can identify the divisions in which an investment of capital will yield the highest returns and this will enable them to make better capital resource allocation decisions to promote corporate growth.
- **Internal Labor Market:** The most able divisional managers are promoted to become corporate managers. Thus divisional managers always have an incentive to perform well because superior performance results in promotion to high office.

# Figure 6.7 – Multidivisional Structure in Which Each Division Has a Different Structure



# Disadvantages of a Multidivisional Structure

- **Managing the Corporate-Divisional Relationship:** The central management problem is how much authority to centralize at the corporate level and how much authority to decentralize to the operating divisions, and the organization has to strive to maintain this balance at all times.
- **Coordination Problems between Divisions:** Divisions may begin to compete for resources, and rivalry between them may prevent them from cooperating. Such rivalry can lower organizational performance when a company's effectiveness depends on the divisions' sharing of knowledge and information about innovations to enhance the performance of all divisions.

# Disadvantages of a Multidivisional Structure

- **Transfer Pricing:** Problems between divisions often revolve around the transfer price—the price at which one division sells a product or information about innovations to another division. To maximize its own return on investment, one division will want a high transfer price, but that will penalize the other division, which is, after all, part of the same organization.
- **Bureaucratic Costs:** Multidivisional structures are very expensive to operate as each division has a full complement of support functions, including R&D. Extensive duplication of activities within the organization—plus there are the costs of corporate headquarters managers and these costs must be continually evaluated against the benefits the company obtains from this structure.

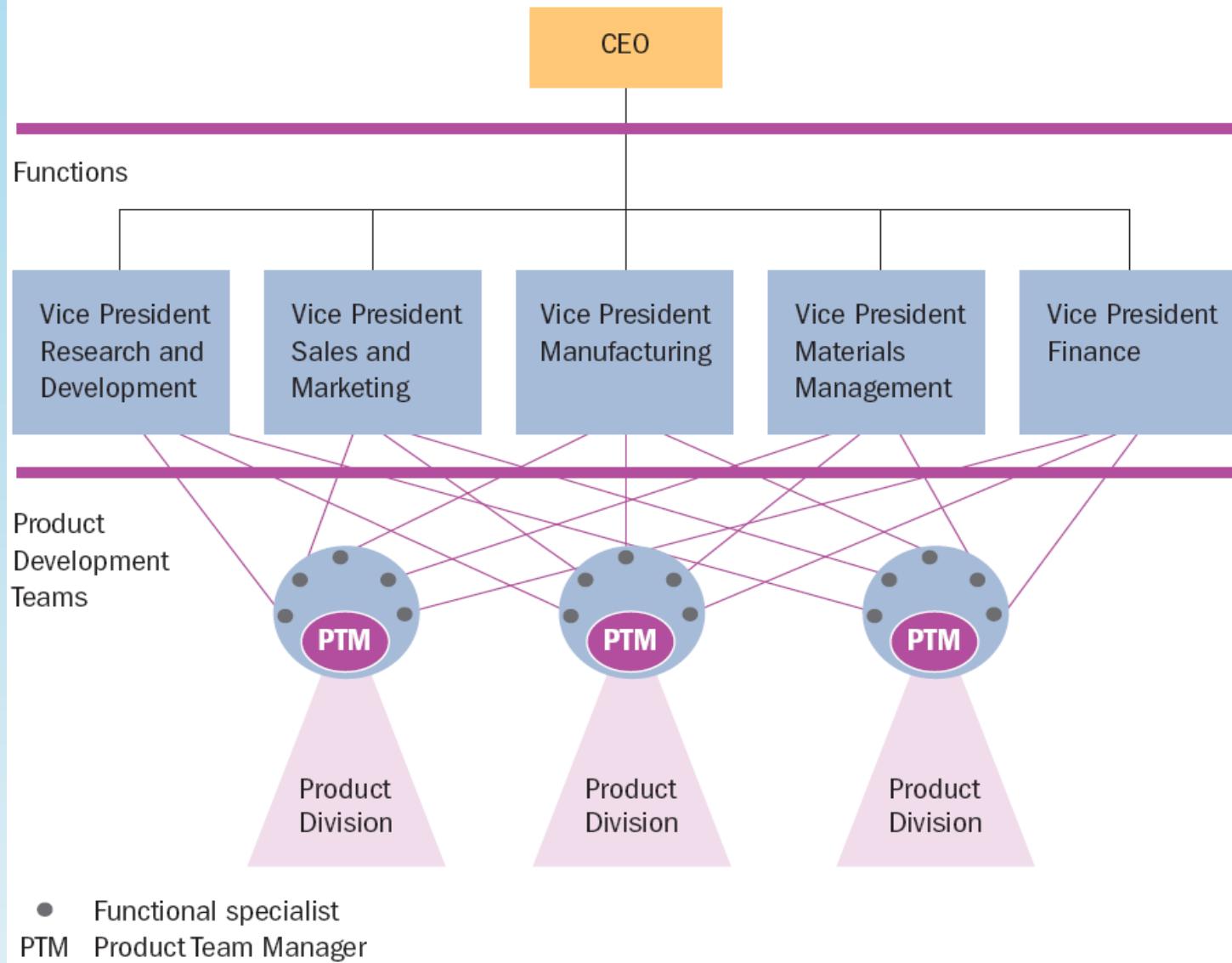
# Disadvantages of a Multidivisional Structure

**Communication Problems:** Communication problems, such as distortion of information, are common in tall hierarchies and these problems are rampant in multidivisional structures because they tend to be the tallest of all organizational structures and the gap between the corporate center and the divisions is especially large.

# Product Structure

- Product team structure: Specialists from the support functions are combined into product development teams that specialize in the needs of a particular kind of product
- A product team structure is a cross between the product division structure and the multidivisional structure.
- Each team is a self-contained division headed by a product team manager
- This structure is more decentralized than product division structures; it allows for greater integration and collaboration and is the second most common method organizations use to group activities, after grouping them by function.

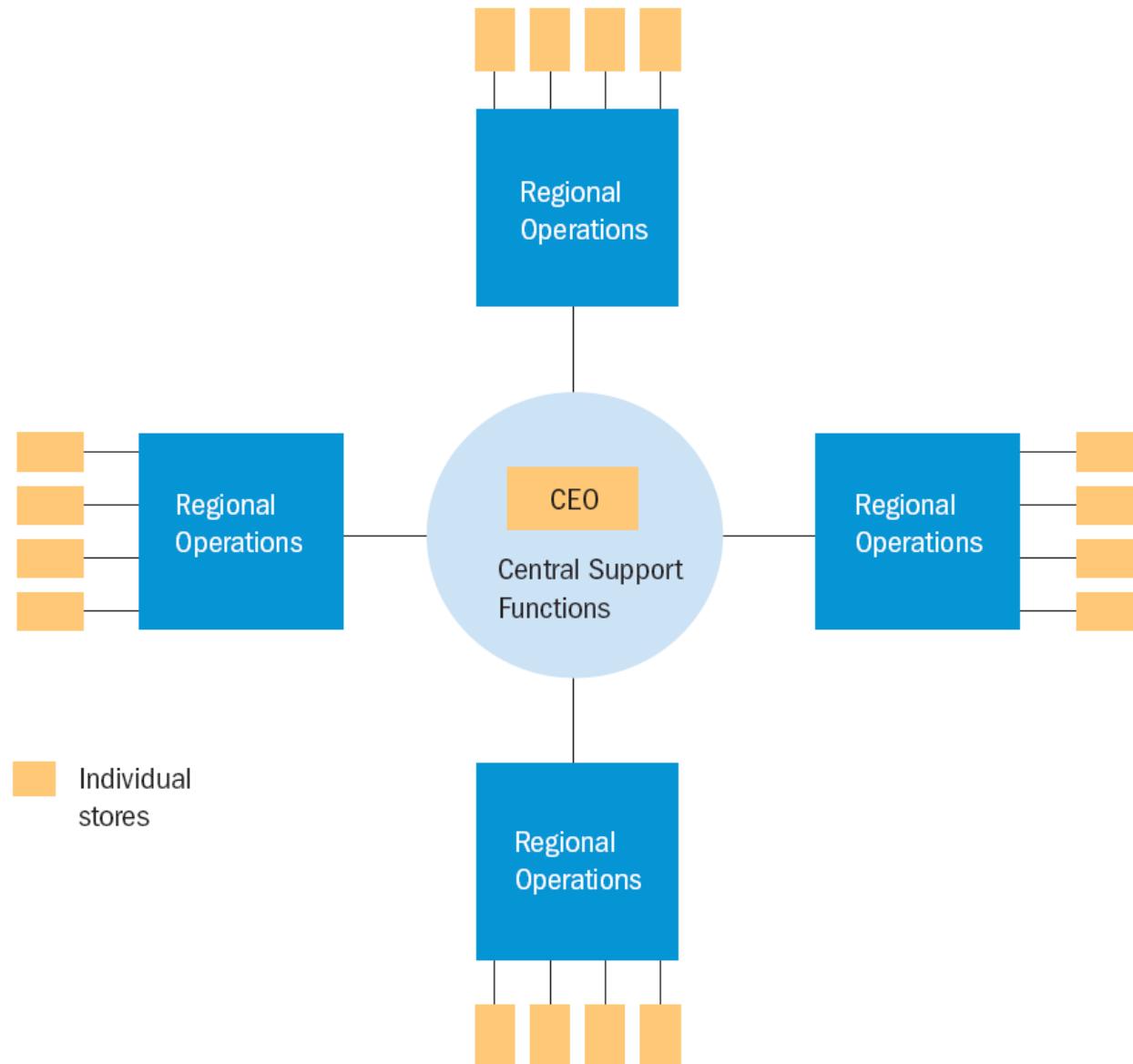
# Figure 6.8 – Product Team Structure



# Divisional Structure II: Geographic Structure

- A divisional structure in which divisions are organized according to the requirements of the different locations in which an organization operates
- Allows the organization to adjust its structure to align its core competences with the needs of customers in different geographic regions
- Allows some functions to be centralized and others decentralized
- A geographic structure allows some functions to be centralized at one headquarters location and others to be decentralized to a regional level and thus helps regulate those control problems that companies experience as a function of geography and expanding consumer base to new regions.

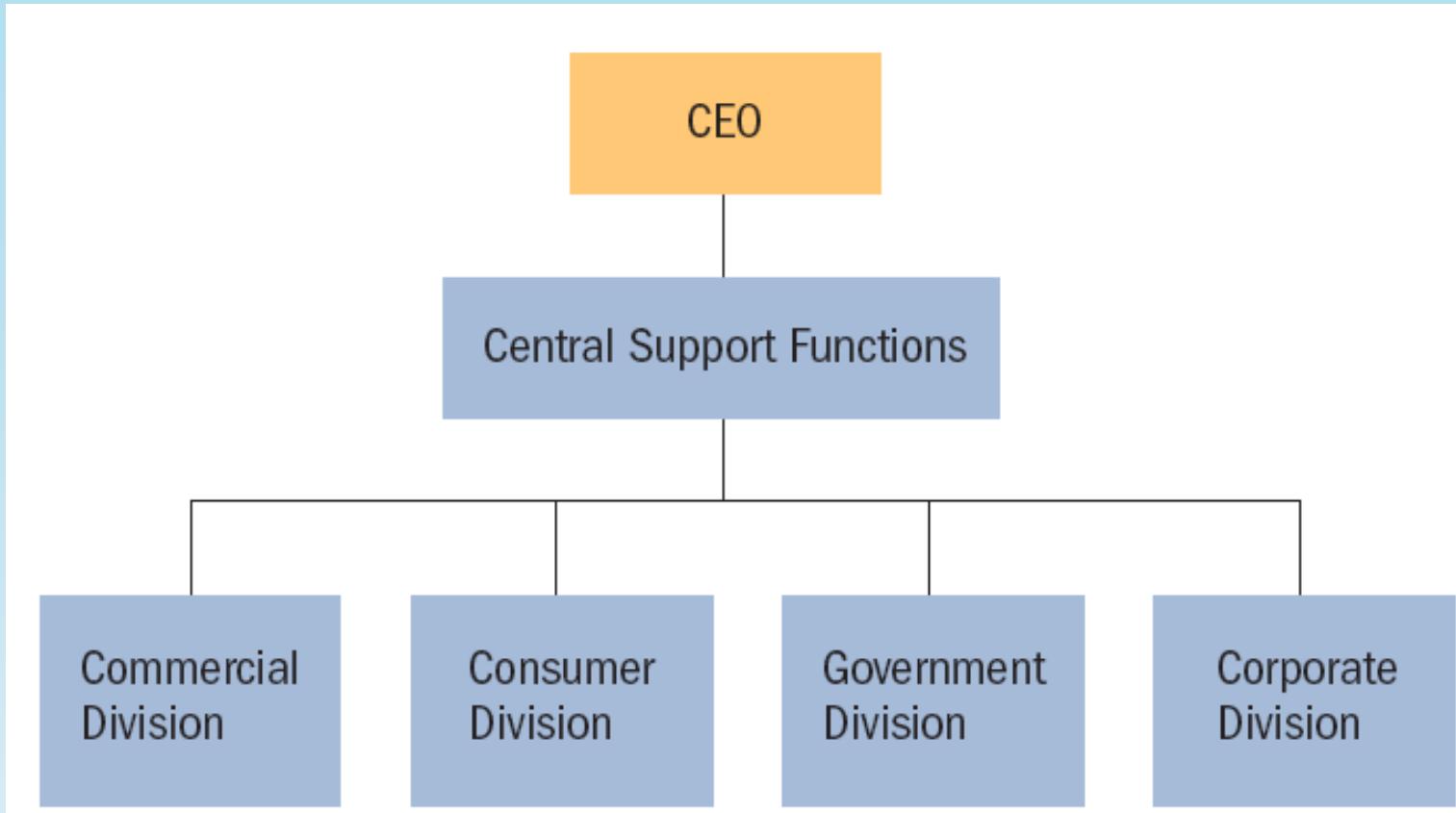
# Figure 6.9 – Geographic Structure



# Divisional Structure III: Market Structure

- A market structure aligns functional skills and activities with the needs of different customer groups
- Each customer group has a different marketing focus, and the job of each group is to develop products to suit the needs of its specific customers
- Each customer group makes use of centralized support function

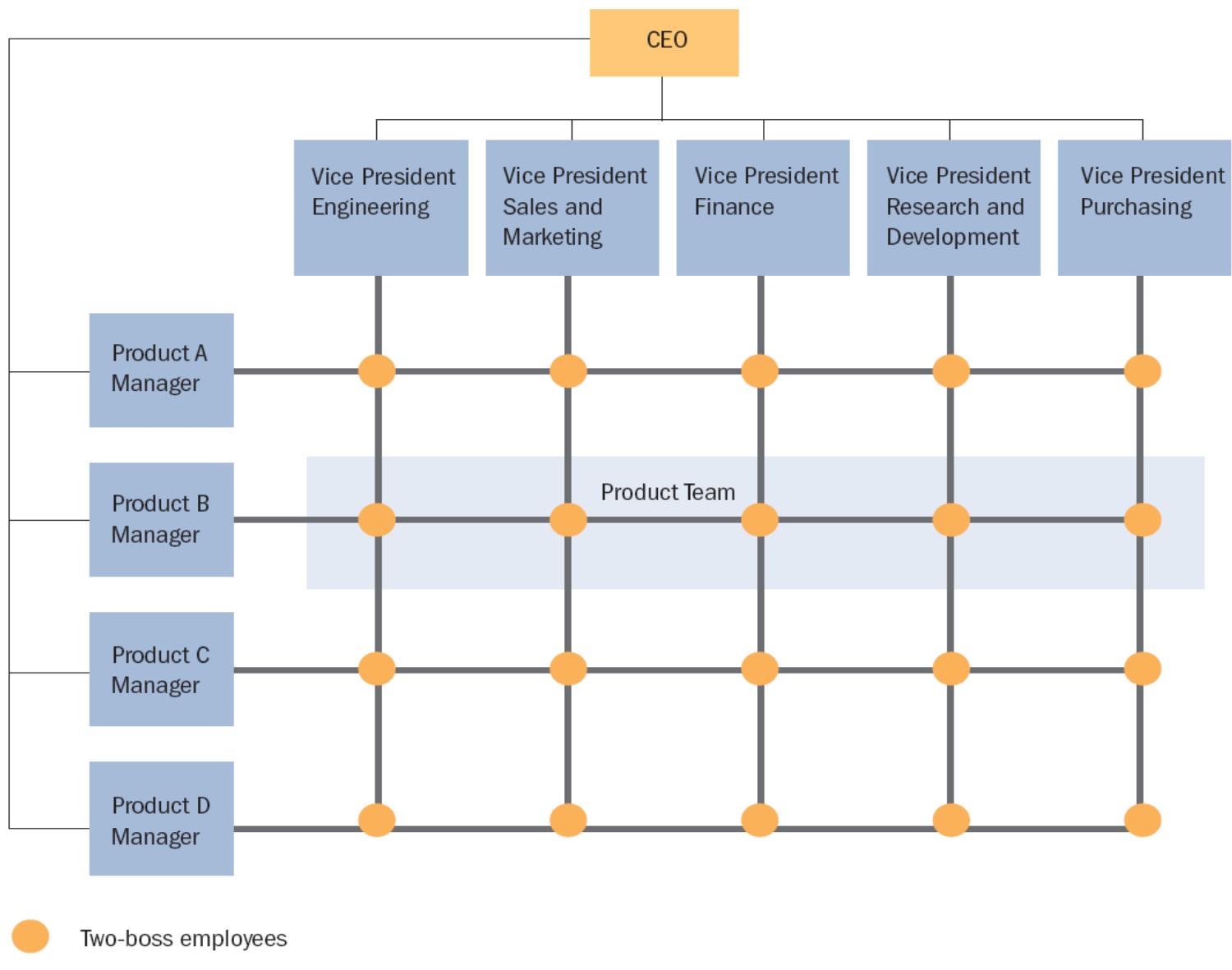
# Figure 6.10 – Market Structure



# Matrix Structure

- The search for better and faster ways to develop products and respond to customer needs has led some companies to choose a **matrix structure**.
- Matrix structure: People and resources are grouped in two ways simultaneously:
  - By function
  - By project or product
- Two-boss employees\_Employees who report to two superiors: the product team manager and the functional manager.

# Figure 6.11 – Matrix Structure



# Advantages of a Matrix Structure

- The use of cross-functional teams reduces functional barriers and subunit orientation
- Opens up communication between functional specialists
- The matrix enables an organization to maximize its use of skilled professionals, who move from product to product as needed
- The dual functional and product focus promotes concern for both cost and quality

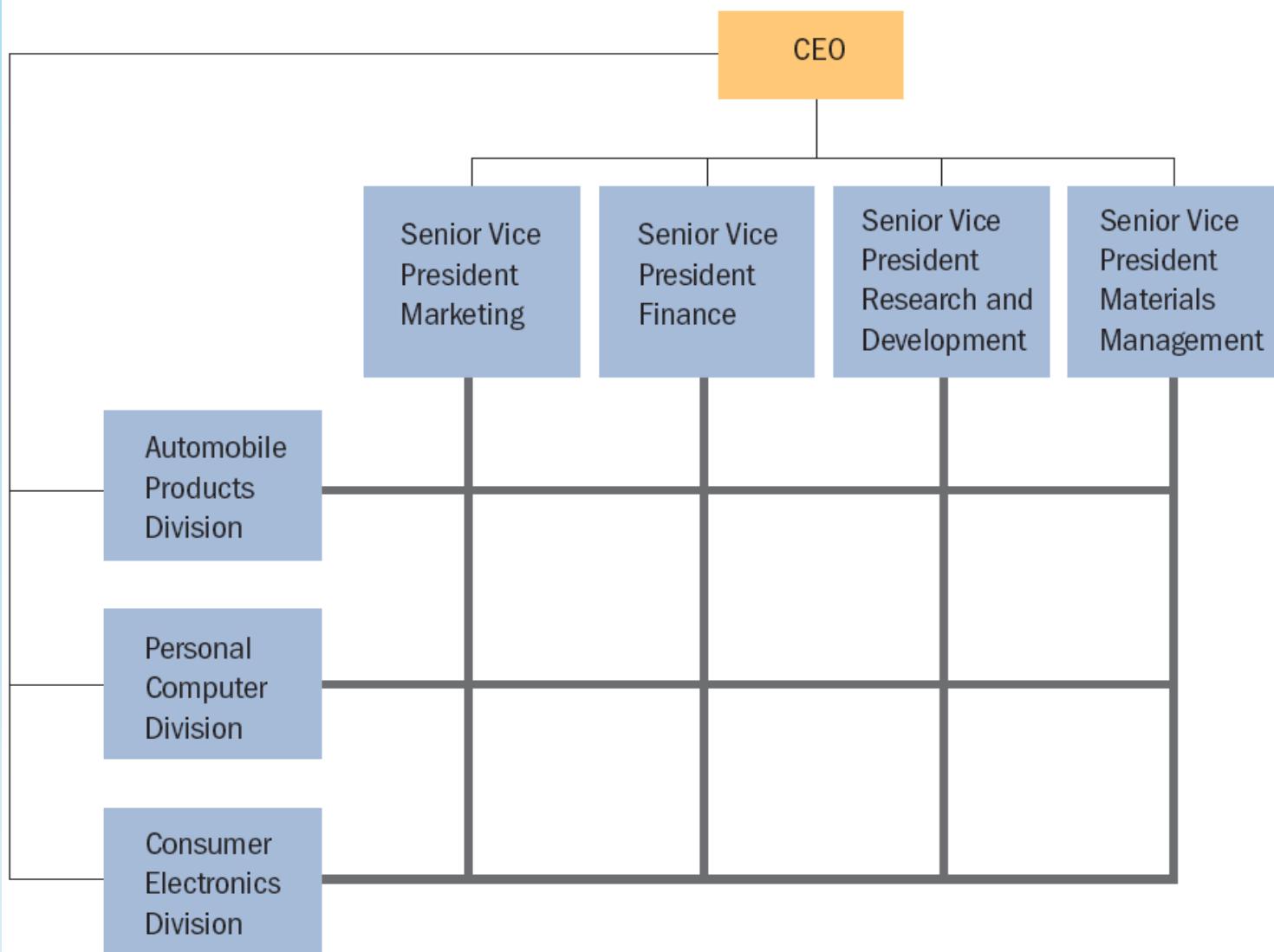
# Disadvantages of a Matrix Structure

- Matrix lacks a control structure that leads employees to develop stable expectations of one another
- The lack of a clearly defined hierarchy of authority can lead to conflict between functions and product teams over the use of resources
- People are likely to experience a vacuum of authority and responsibility

# The Multidivisional Matrix Structure

- Multidivisional matrix structure: A structure that provides for more integration between corporate and divisional managers and between divisional managers
- Makes it easier for top executives from divisions and corporate headquarters to cooperate and jointly coordinate organizational activities

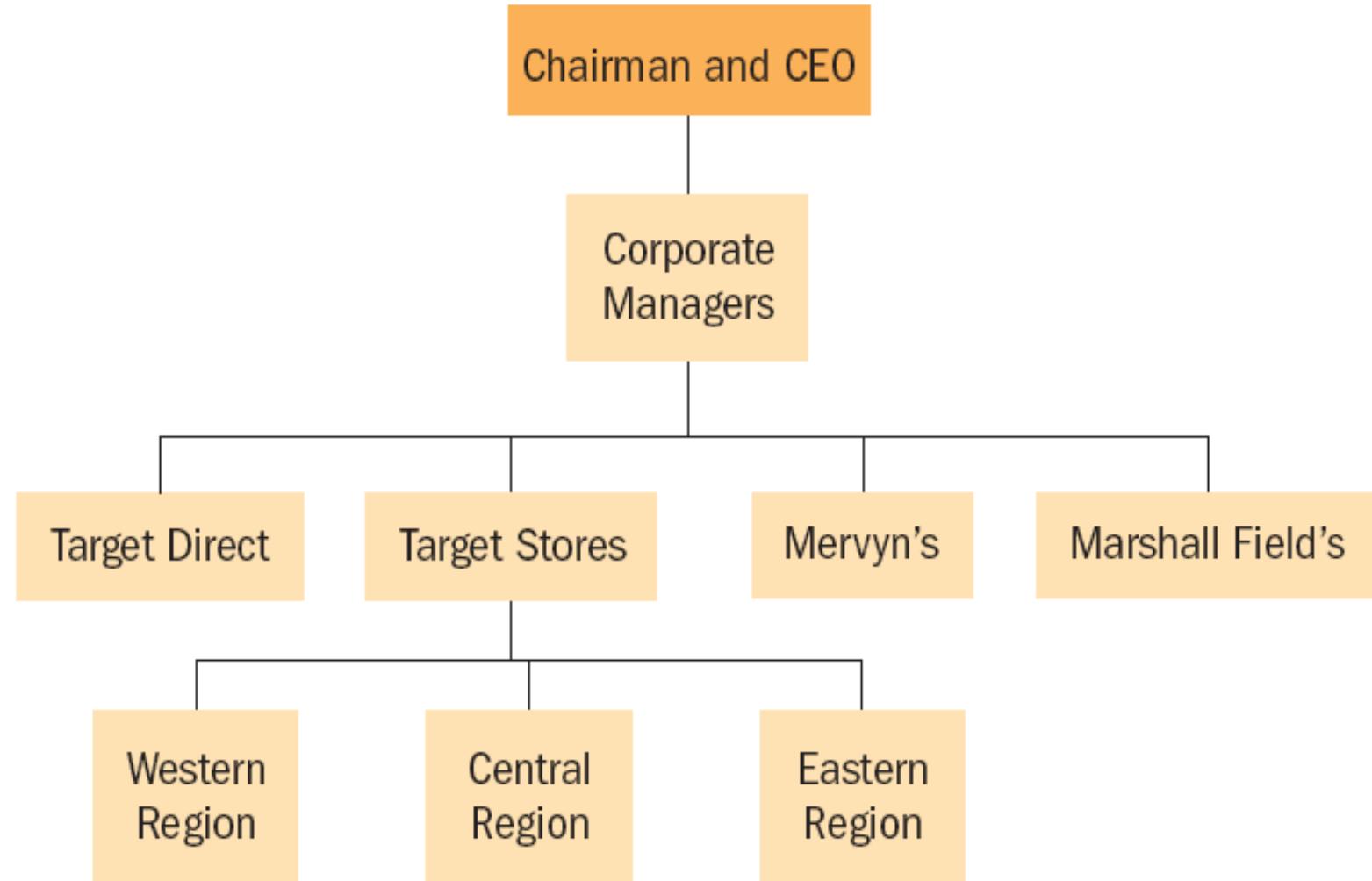
# Multidivisional Matrix Structure



# Hybrid Structure

- It is the structure of a large complex organizations that has many divisions
  - Uses many different types of organizational structure
- Each product division's manager selects the structure (functional, product, geographic) that best meets the needs of their particular environment and strategy

# Target's Hybrid Structure



# Network Structure

- A cluster of different organizations whose actions are coordinated by contracts and agreements rather than through a formal hierarchy of authority
- Very often one organization takes the lead in creating the network as it searches for a way to increase effectiveness.
- Network structures often become very complex as a company forms agreements with a whole range of suppliers, manufacturers, and distributors to outsource many of the value-creation activities necessary to produce and market goods and services.

# Advantages of Network Structures

- Production costs are reduced
- Avoids the high bureaucratic costs of operating a complex organizational structure
- Allows an organization to act in an organic way
- Network partners can be replaced if they do not perform up to standards
- If network partners fail to perform, they can be easily replaced

# Disadvantages of Network Structures

- The coordination problems arising from having different companies perform different parts of the work process would be enormous.
- Ability to control a complex value- creation process is difficult because managers lack the means to effectively coordinate and motivate the various network partners

# The Boundaryless Organization

- Boundaryless organization: composed of people who are linked by computers, faxes, CAD systems, and video conferencing
- People working in this manner are not formal members of an organization; rather, they are independent functional experts who form an alliance with an organization, fulfill their contractual obligations, and then move on to the next project
- The use of outsourcing and the development of network organization are increasing rapidly as organizations recognize the many opportunities they offer to reduce costs and increase flexibility

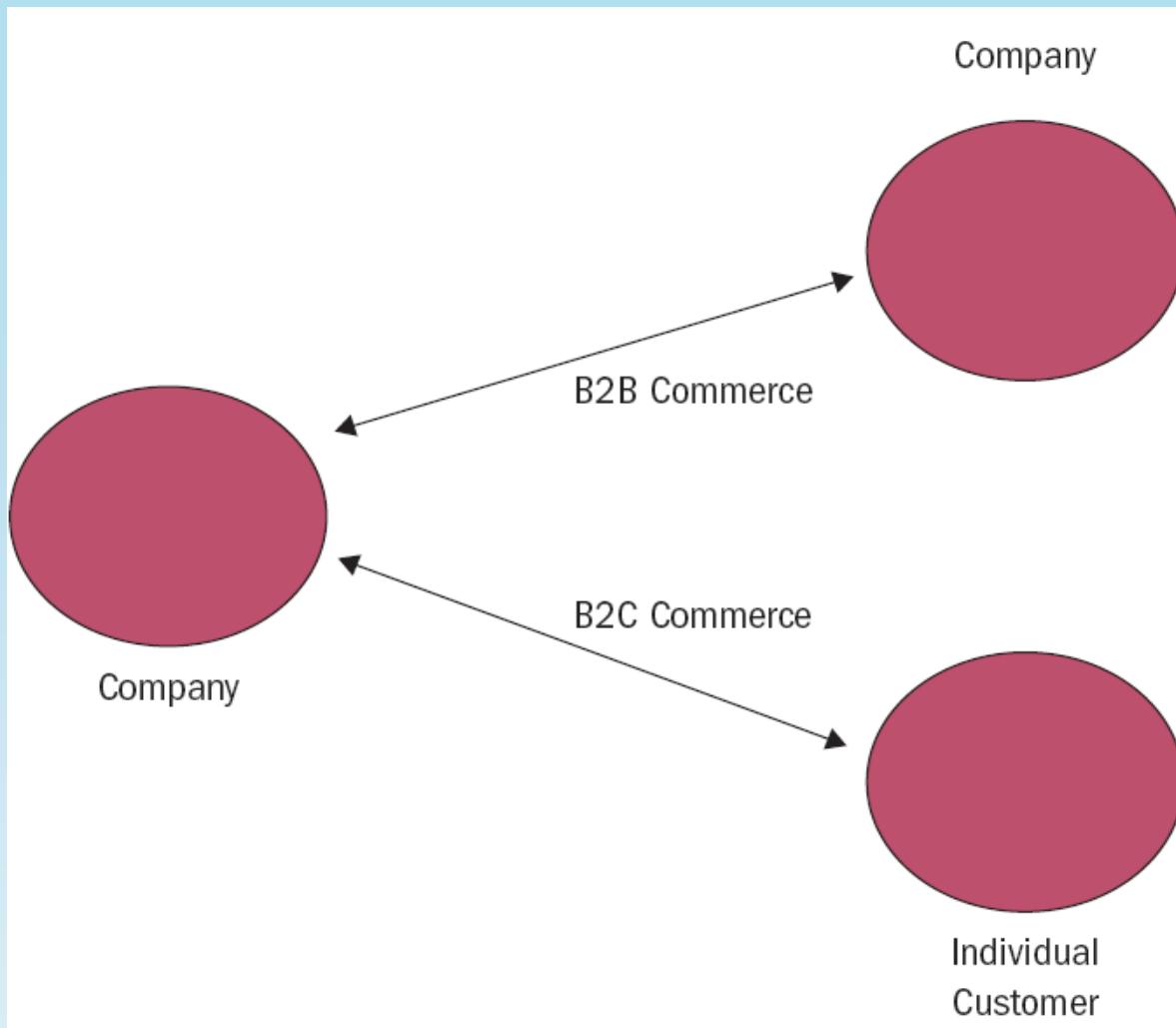
# E-commerce

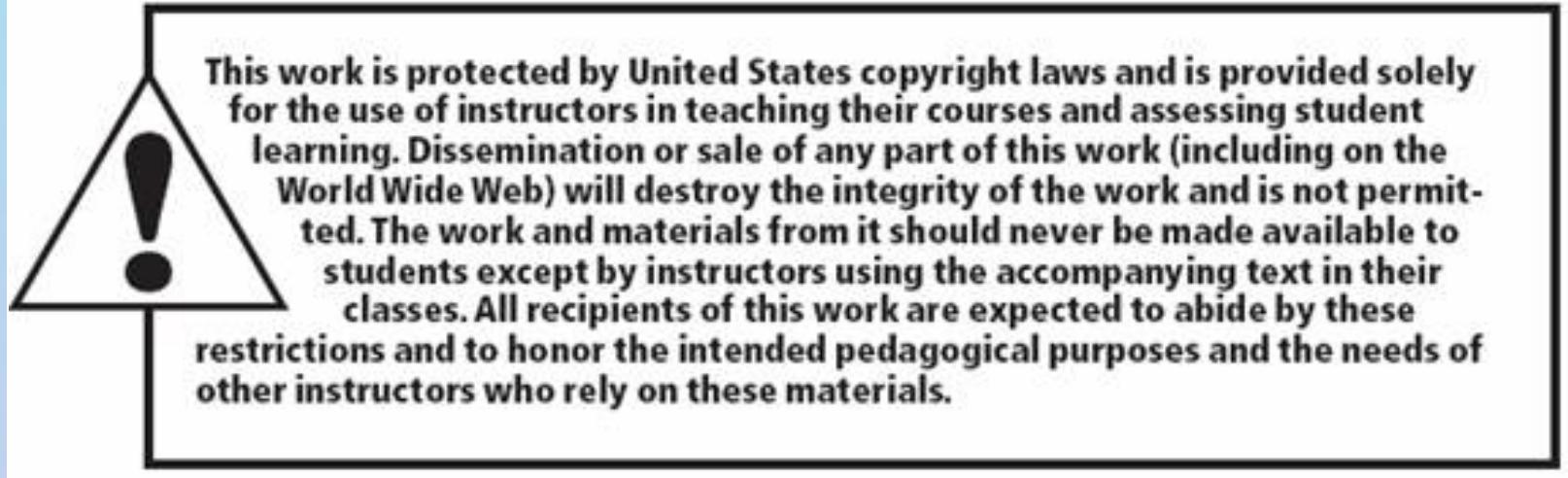
- It is the trade that takes place between companies, and between companies and individual customers, using IT (Information Technologies) and the Internet
- Business-to-business (B2B): trade that takes place between companies that links and coordinates their value chains
  - B2B marketplace – Industry-specific trading network connecting buyers and sellers

# E-commerce (cont.)

- Business-to-customer (B2C): Trade that takes place between a company and its network of individual customers using IT and the Internet

# Figure 6.14 – Types of E-Commerce





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