

# Understanding Organization

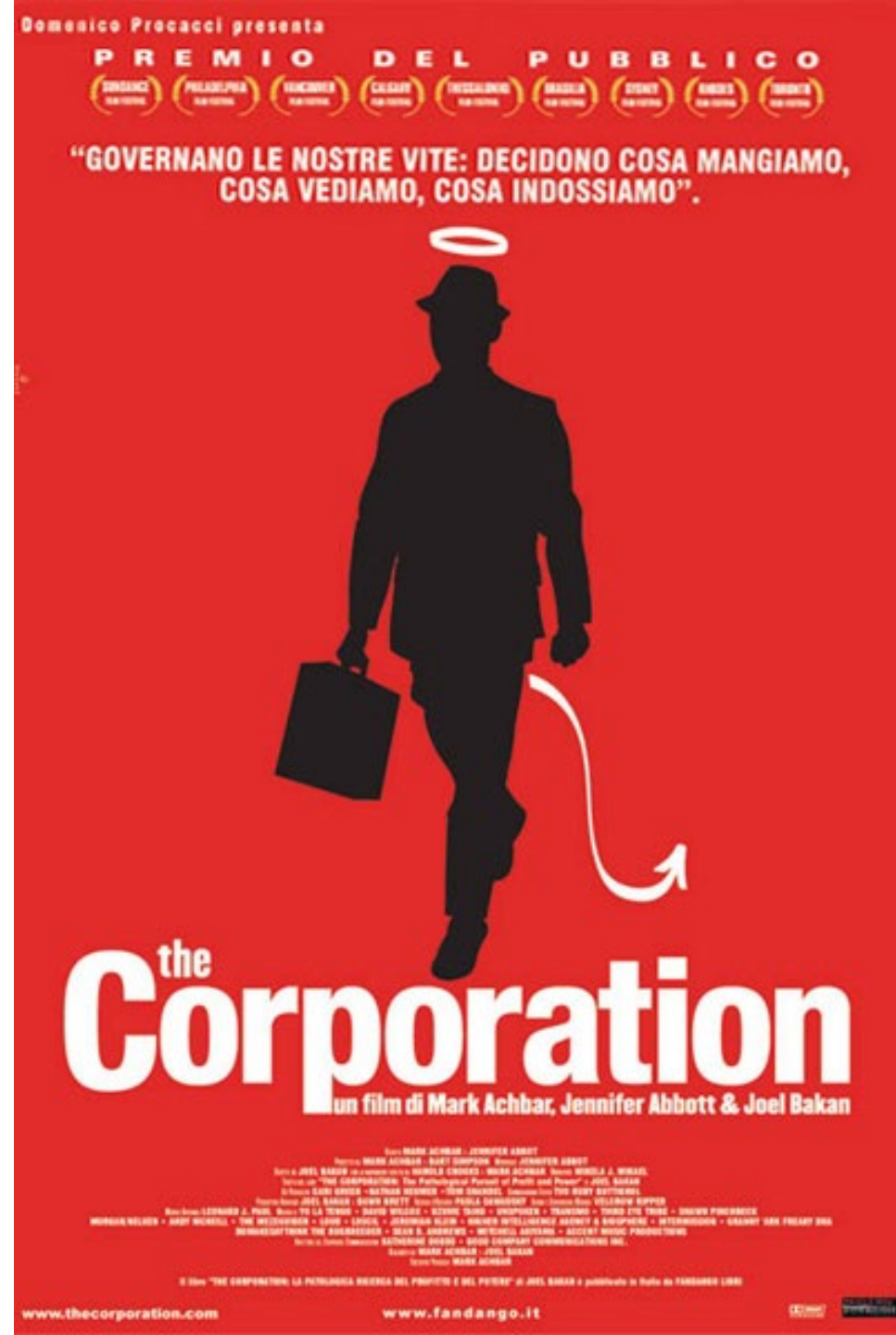
## (Tutorial 3: Organization Design)

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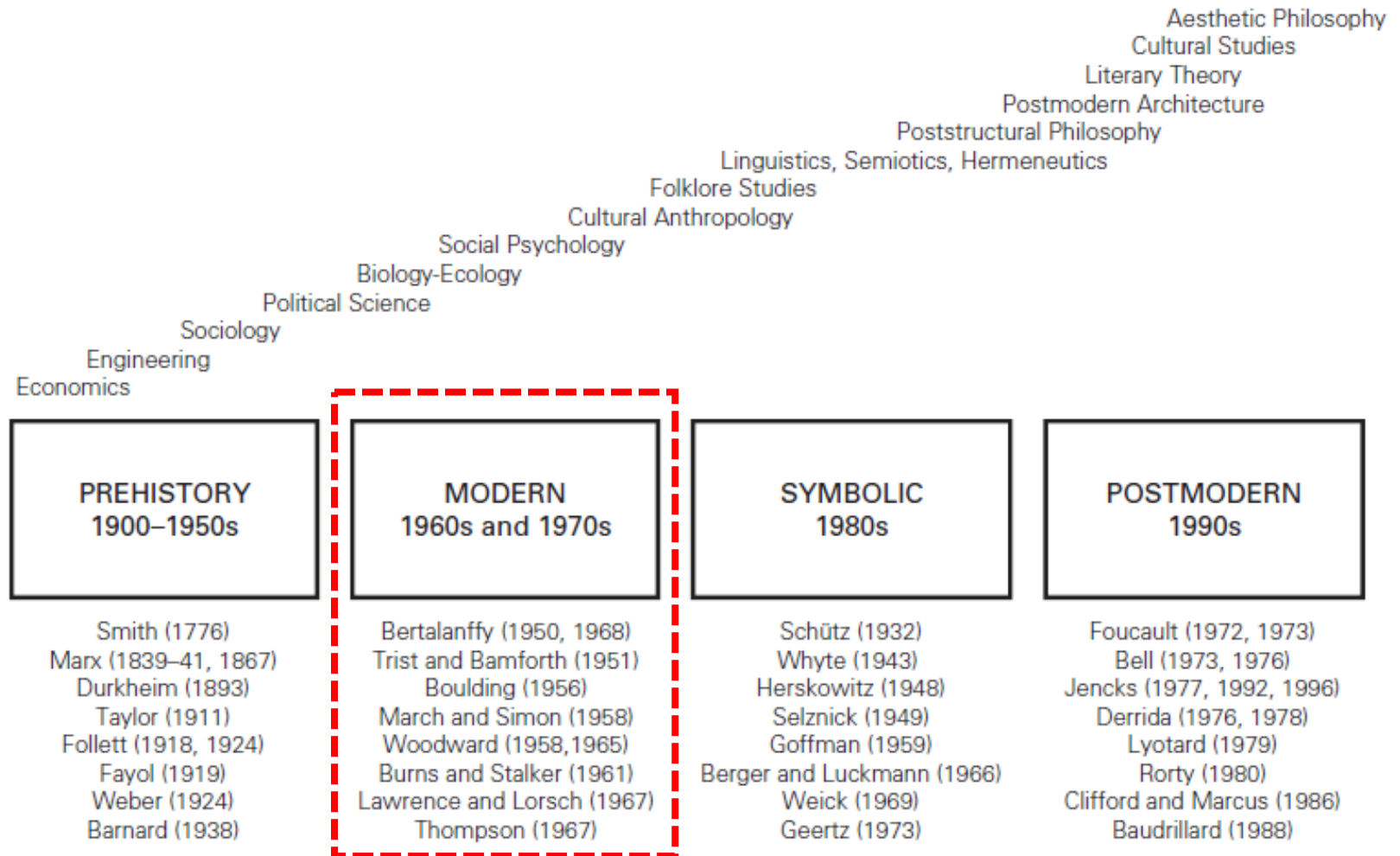
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# Sources of Org. Theories



**Figure 2.1** Sources of inspiration for the perspectives of organization theory

The boxes in the center of this figure are ordered along a timeline showing when the modern, symbolic, and postmodern perspectives became established within organization theory. The disciplines from which these perspectives are borrowed appear above the timeline in the rough order of their initial influence, while the contributing theorists are listed below, alongside publication dates for the works you will find referenced at the end of the chapter.

# Weber's Bureaucratic Management

- Weber's **ideal-typical bureaucracy**, whether public or private, is characterized by:
  - Hierarchical organization;
  - Formal lines of authority (chain of command);
  - A fixed area of activity;
  - Rigid division of labor;
  - Regular and continuous execution of assigned tasks;
  - All decisions and powers specified and restricted by regulations;
  - Officials with expert training in their fields;
  - Career advancement dependent on technical qualifications;
  - Qualifications evaluated by organizational rules, not individuals.

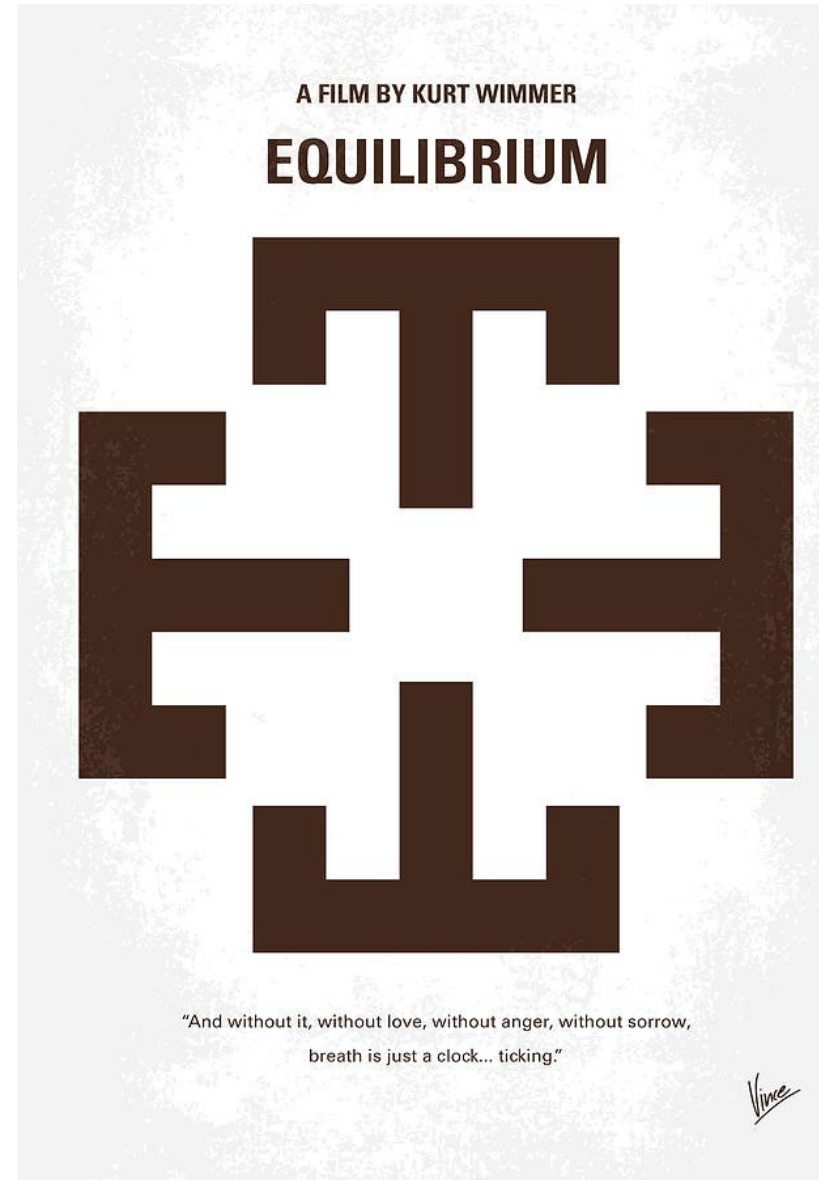


# Modernist Org. Theory

- **Modern**: characteristic of present and recent time; contemporary; not antiquated or obsolete.
- **Modernist** means relating to the ideas and methods of modern art (e.g., modernist architecture).
- Max Weber's idea of bureaucratic management lays the foundation of modernist organizational theories.
- Modernist organization theorists based their definition of three core components of organizational social structure on Weber's theory:
  - **Division of labor**;
  - **Hierarchy of authority**;
  - **Formalized rules and procedures.**

# Modernist Org. Theory

- The modernist organization was revolutionary in its emphasis on **order, rationality, and impersonal equity**.
- The modernist organization can be portrayed as a force for the general social good.
- Deeply embedded within modernist organization theory is the **professionalization** of the language of organization and of management.



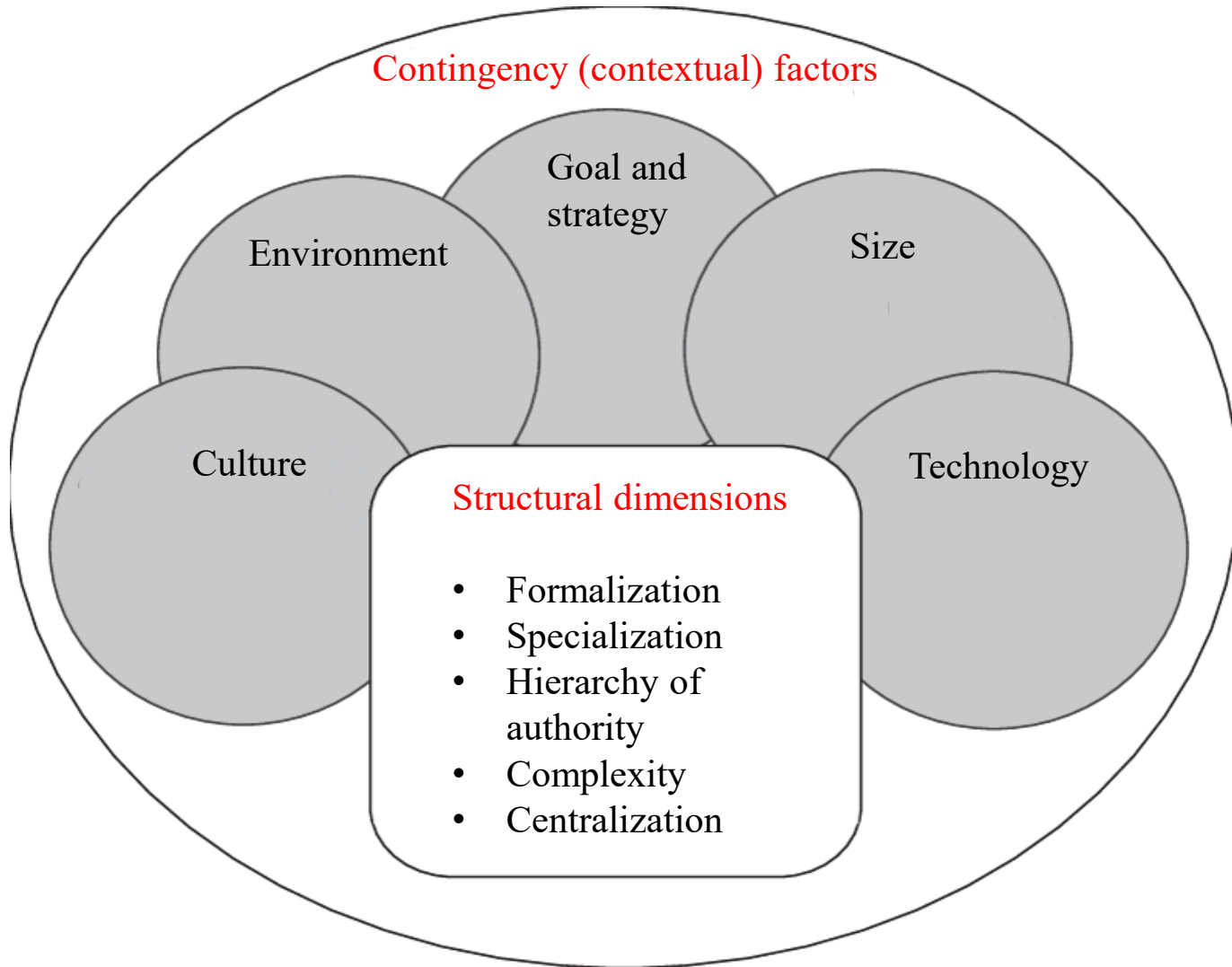
## Organization Design



# Organization Design

- **Organization design** involves the **creation** (or **removal**) of roles, processes, and structures to ensure that the organization's goals can be realized.
- An important driver for organization design is the organization's **strategy** – but the design of the organization may also to a great extent determine which strategies we may be able to form in the first place.
- Chandler's idea of “**structure-follow-strategy**”: The divisions, departments, teams, processes, and technology of an organization are designed to achieve a firm's strategy.
- Example: Amazon adopts **a flat structure** to support its focus on innovation and customer service. The flat structure allows Amazon to respond quickly to customer feedback.

# Organization Design





# Organization Design

- Structural dimensions:

<b>Formalization</b>	The degree to which jobs within the organization are <b>standardized</b> and the extent to which employee behavior is guided by <b>rules and procedures</b> .
<b>Specialization</b>	The degree to which organizational tasks are <b>subdivided into separate jobs</b> .
<b>Hierarchy of authority</b>	The relation of <b>who reports to whom</b> and <b>the span of control</b> for each manager.
<b>Complexity</b>	The degree to which organization is <b>departmentalized</b> .
<b>Centralization</b>	The hierarchical level that has authority <b>to make a decision</b> .

**Formal rules vs. Customers**

**A TALE OF A URBAN REALITY**

# **FALLING DOWN**



**A JOEL SCHUMACHER'S FILM**

**MICHAEL DOUGLAS**

**ROBERT DUVAL**

**BARBARA HERSHEY**

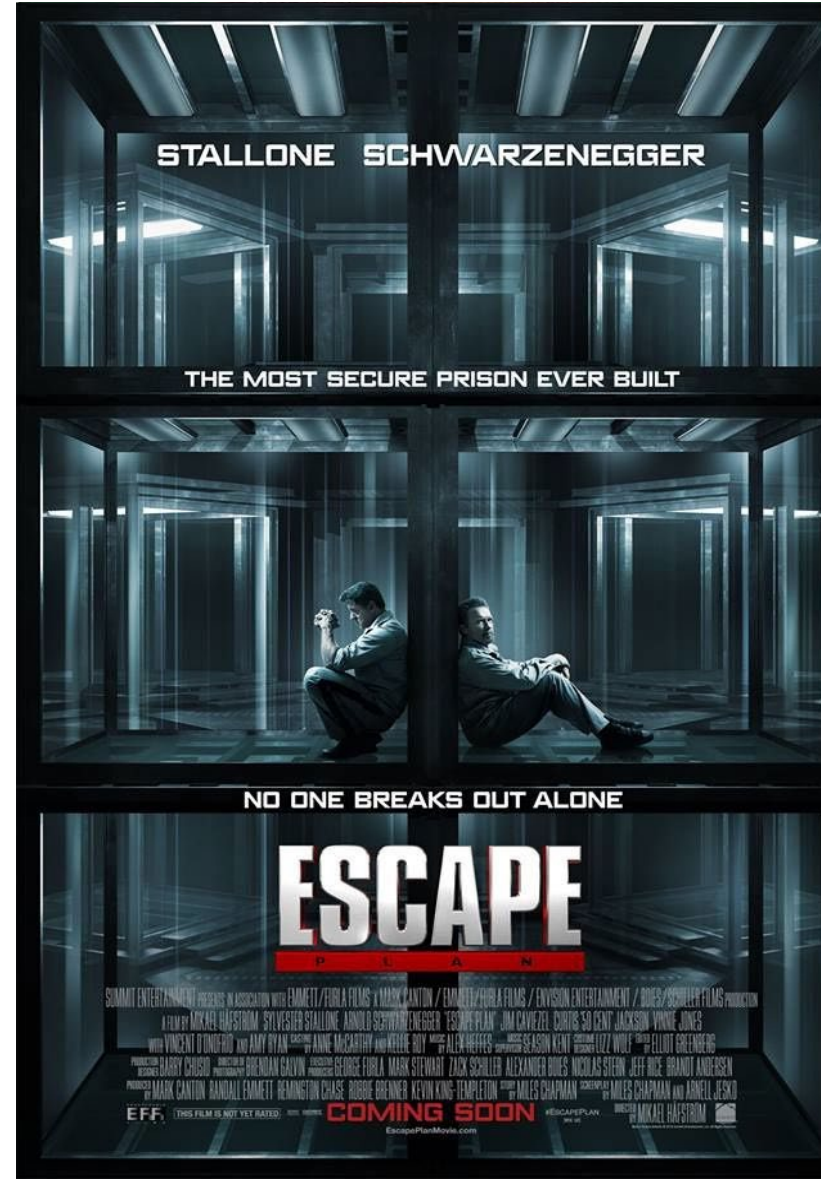


- a) **Formalization**
- b) **Specialization**
- c) **Hierarchy of authority**
- d) **Complexity**
- e) **Centralization**



# Iron Cage

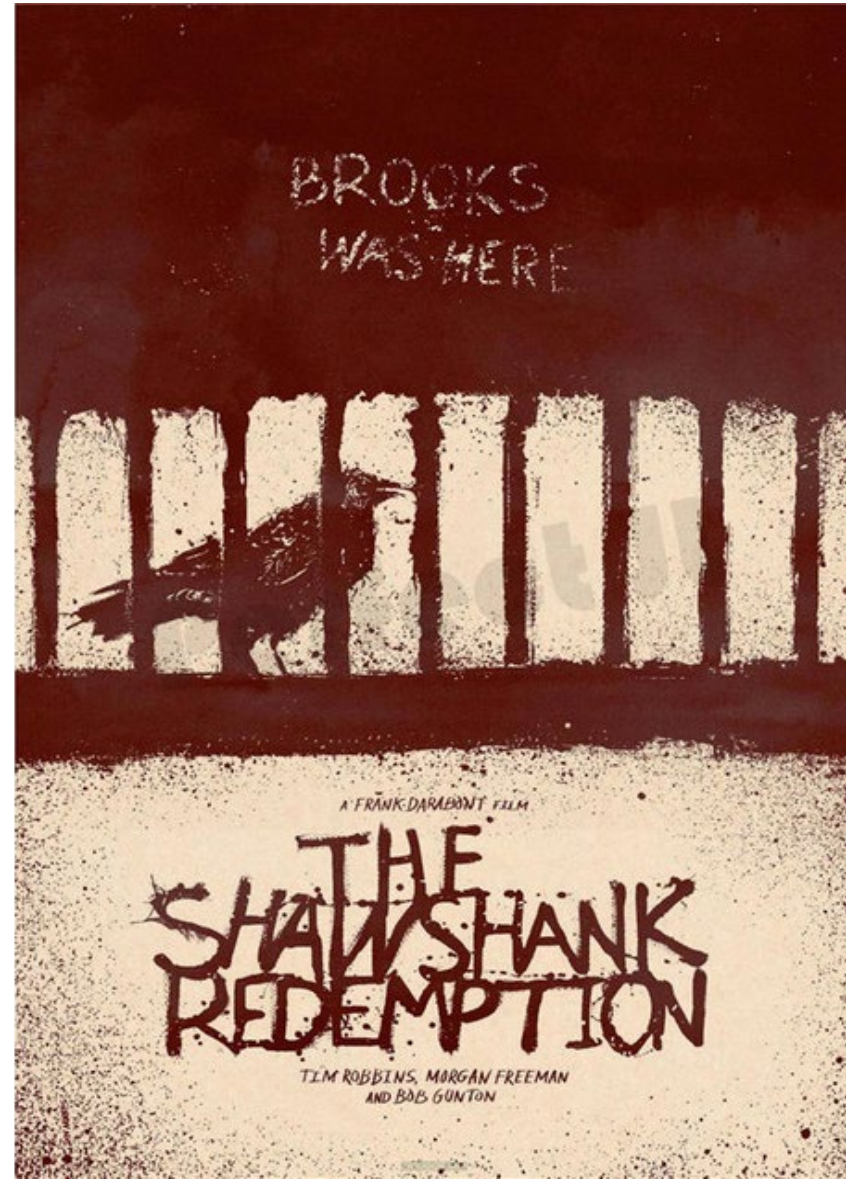
- **Control** has been a central concept in org. theory since the time of Weber.
- Weber articulated the **bureaucracy** as the dominant form of modern control, in both positive and negative sense.
- But, its system of rational rules may become troublesome, as seen in the infamous “**red tape**” that constrains and slows the bureaucracy and makes it unresponsive to environmental change.



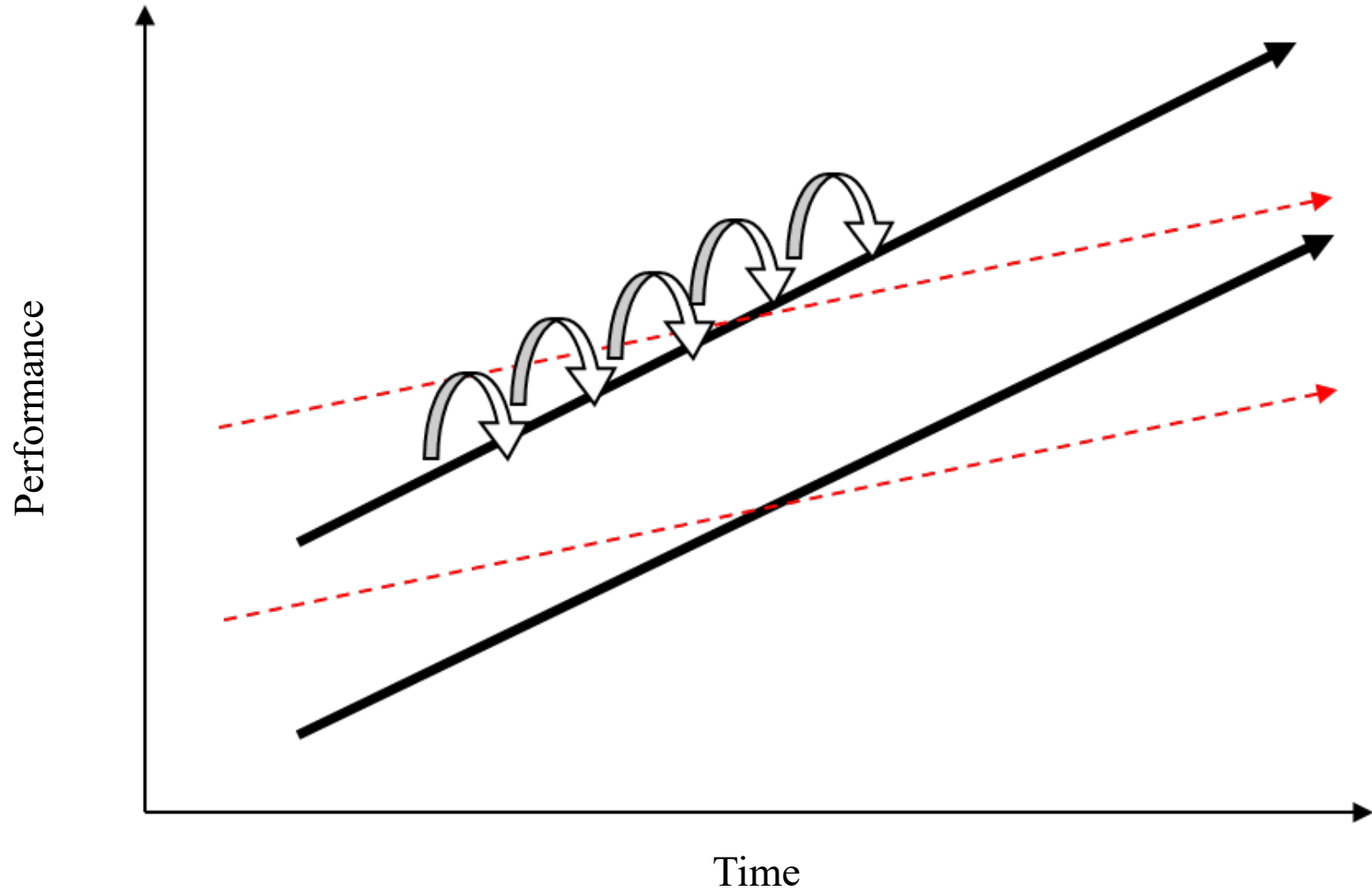


# Iron Cage

- Adopting formal rationality without considering substantive rationality leads, Weber warned, to an **iron cage** capable of making every human a “cog in an ever-moving mechanism.”
- The iron cage traps individuals in systems based on purely on teleological efficiency, rational calculation and control.
- **Institutionalization** of organizations.



# Disruptive Innovation



# Disruptive Innovation

- **Industrial disruption** is an example caused by organizational iron cage.
- Because managers are institutionalized to rigidly follow the “golden rule” or “formal guideline” of satisfying customers, they fail to sense the opportunities of lower-end market.
- Thus, in the internal decision-making process of resource allocation, lower-end market is always ignored.
- Example: Kodak and Nokia.



# Organization Design

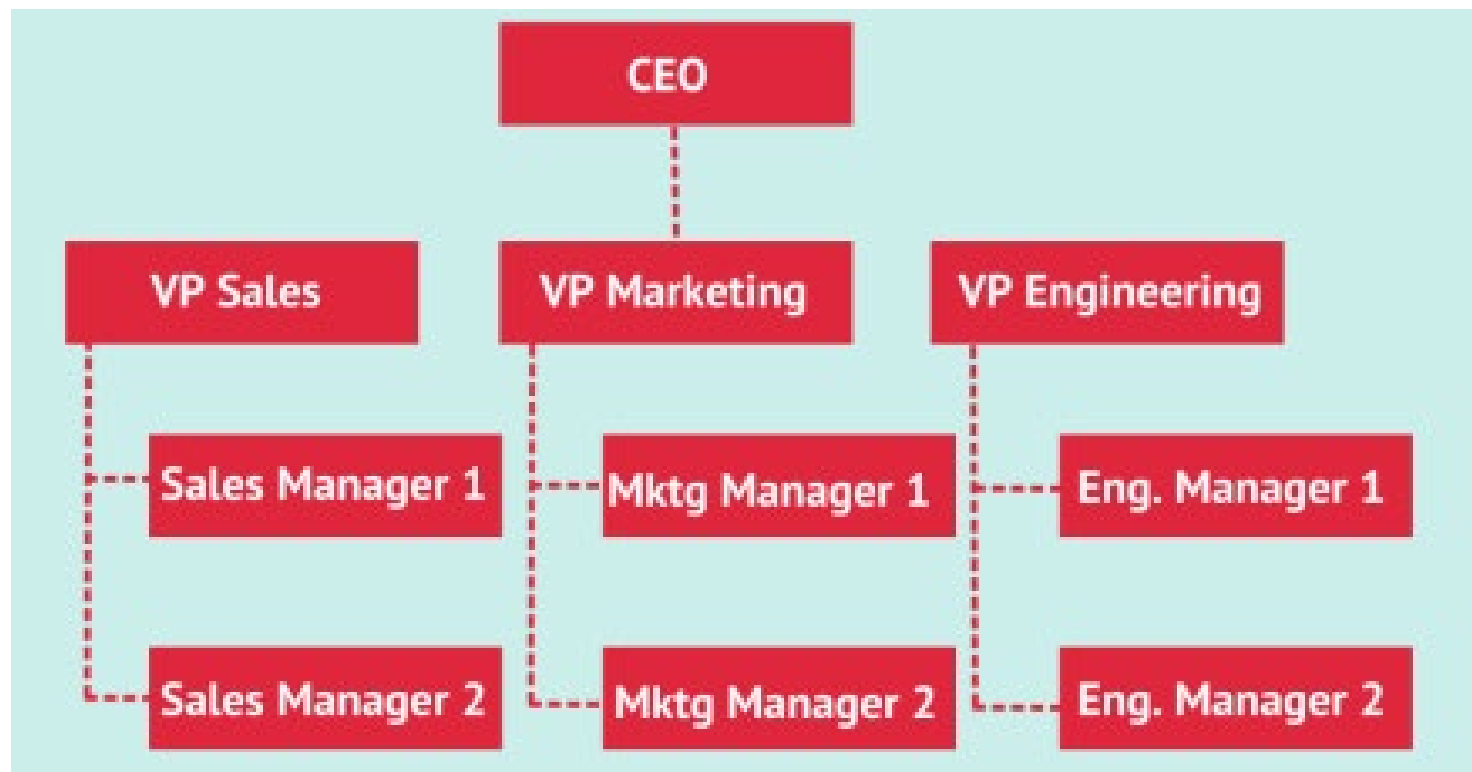
- Contingency (or contextual) factors:

<b>Size</b>	Size is typically measured by <b>the number of employees</b> . Other measures such as total sales or total assets also reflect magnitude.
<b>Organizational technology</b>	The tools, techniques, and actions used to transform inputs into outputs.
<b>Environment</b>	All elements outside the boundary of the organization. Key elements include the <b>industry, government, customers, suppliers</b> , and the <b>financial community</b> .
<b>Goals and strategy</b>	The purpose and competitive techniques that set it apart from other organizations.
<b>Culture</b>	The underlying set of key values, beliefs, understandings, and norms shared by employees.



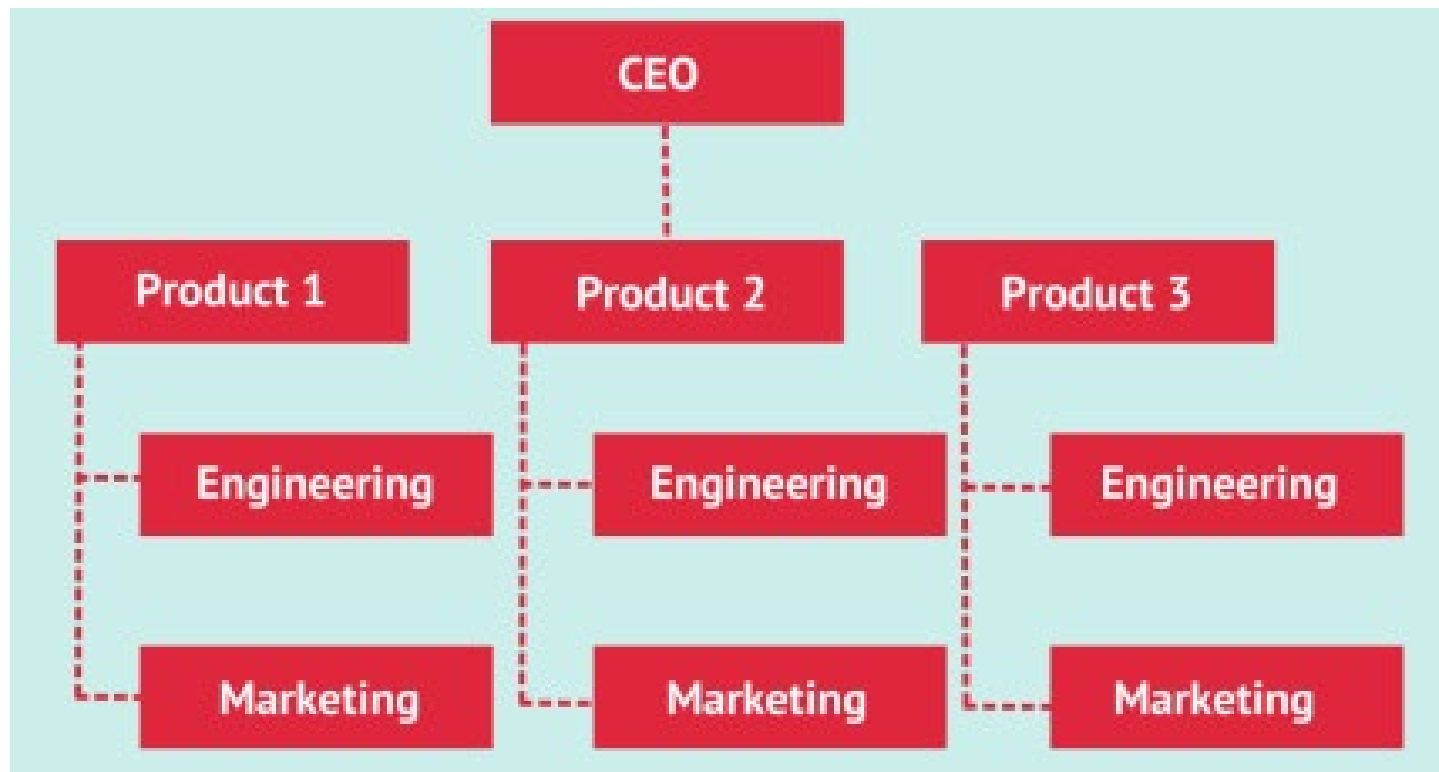
# Functional Organizational Structure

- **Functional organizational structure (U-form)** groups people or units who perform similar (functionally specialized) tasks.
- The organization is structured based on **key functions**.



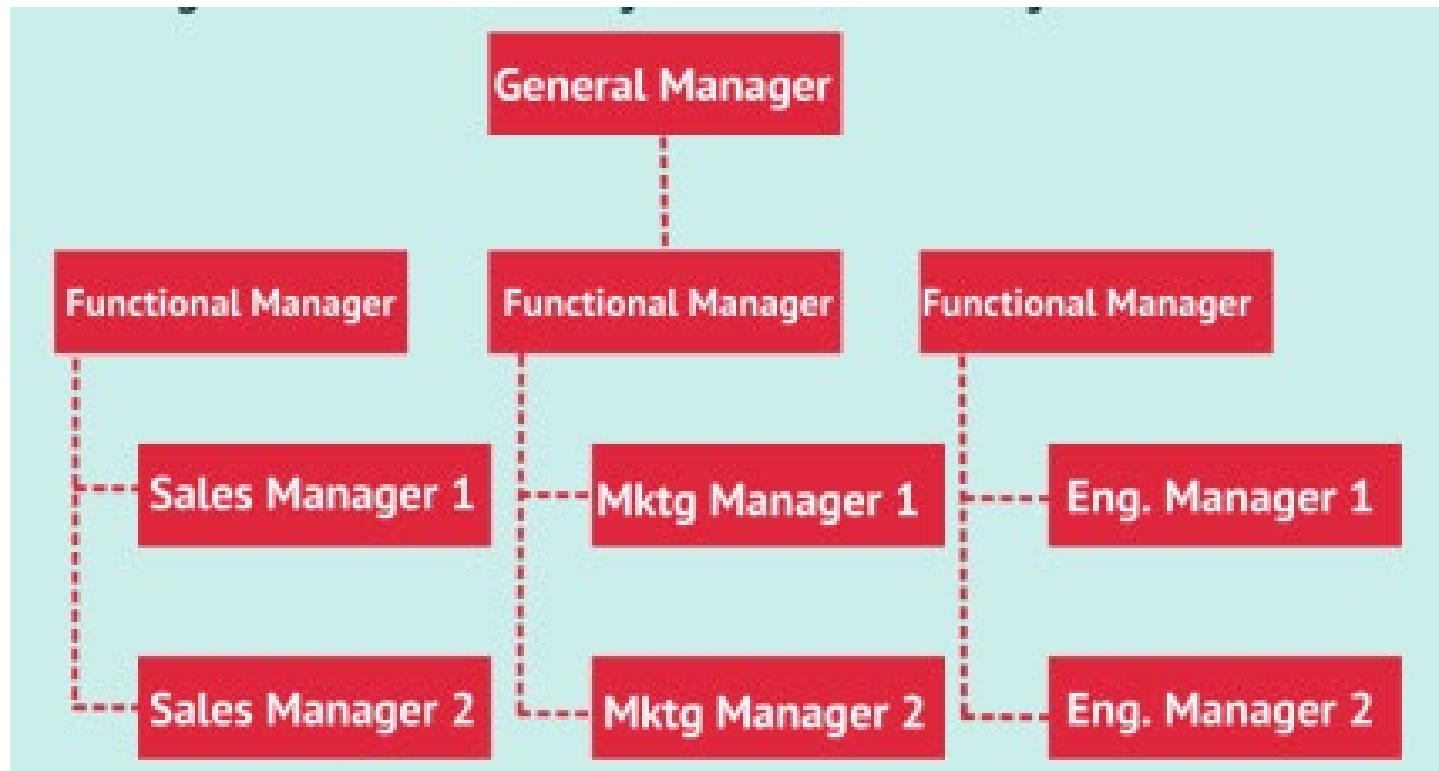
# Divisional Organizational Structure

- Divisional organizational structure (M-form) is split into autonomous business units.
- The organization is structured based on key products or markets.

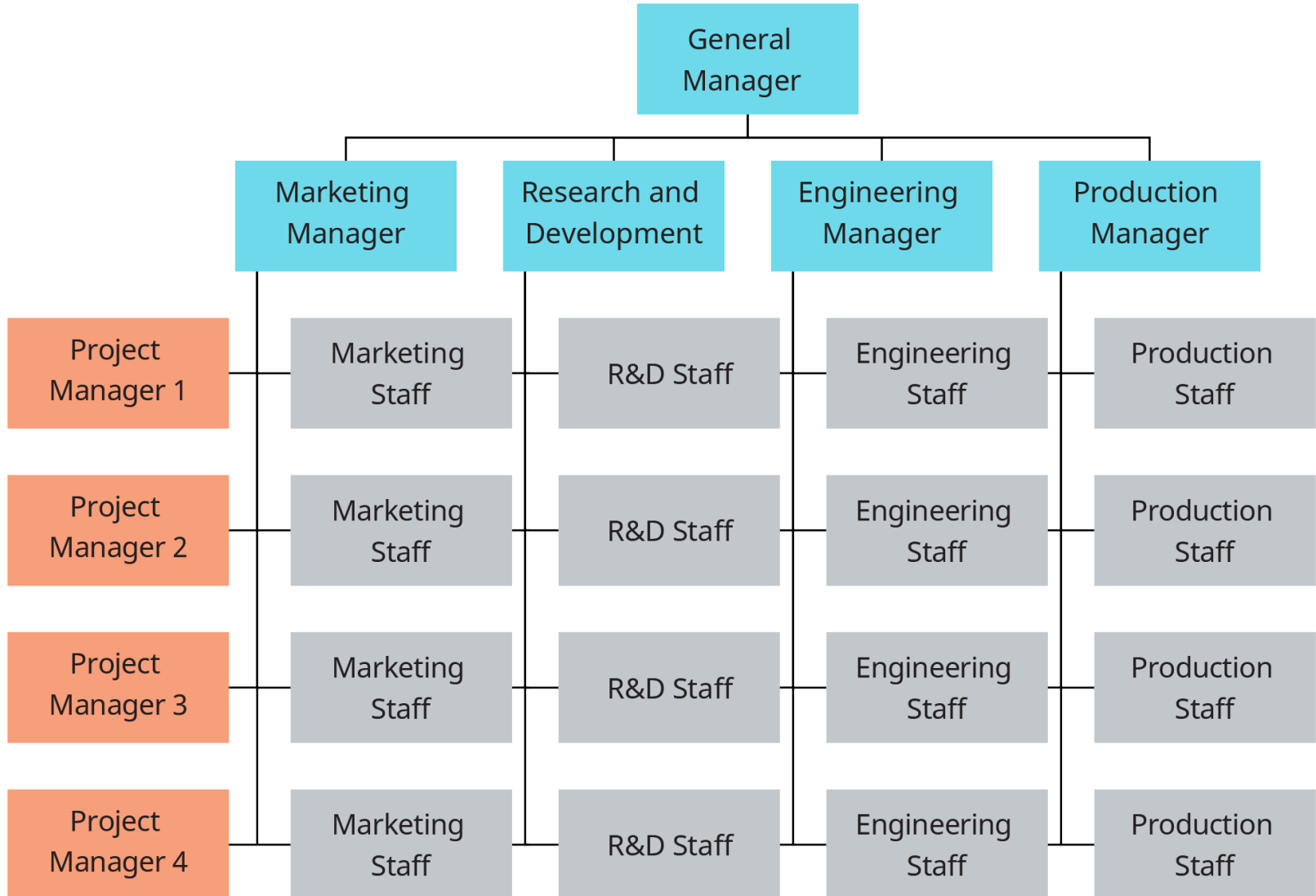


# Matrix Organizational Structure

- **Matrix organizational structure** differentiates units along two or more dimensions (each person reports to 2 or more bosses).
- The organization is structured based on **cross-functional teams**.



# Matrix Organizational Structure

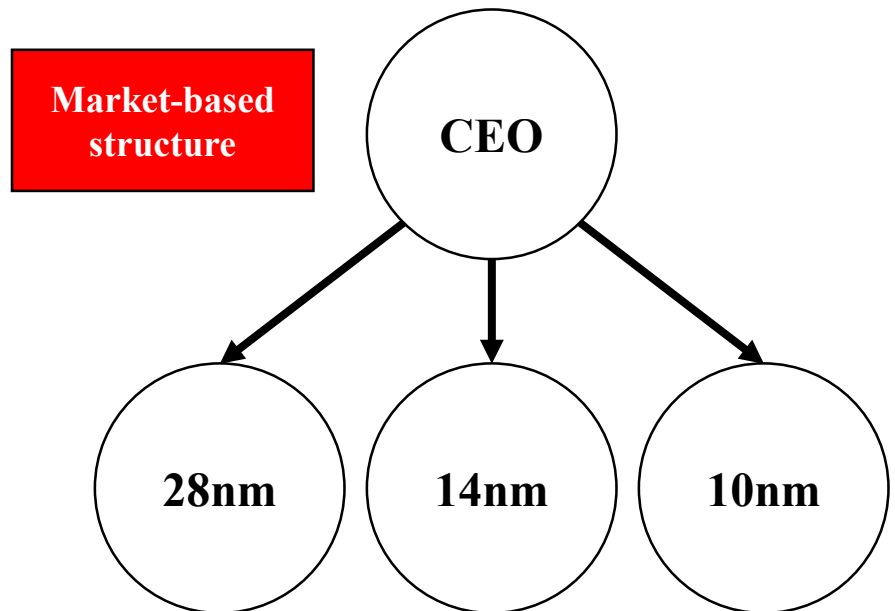
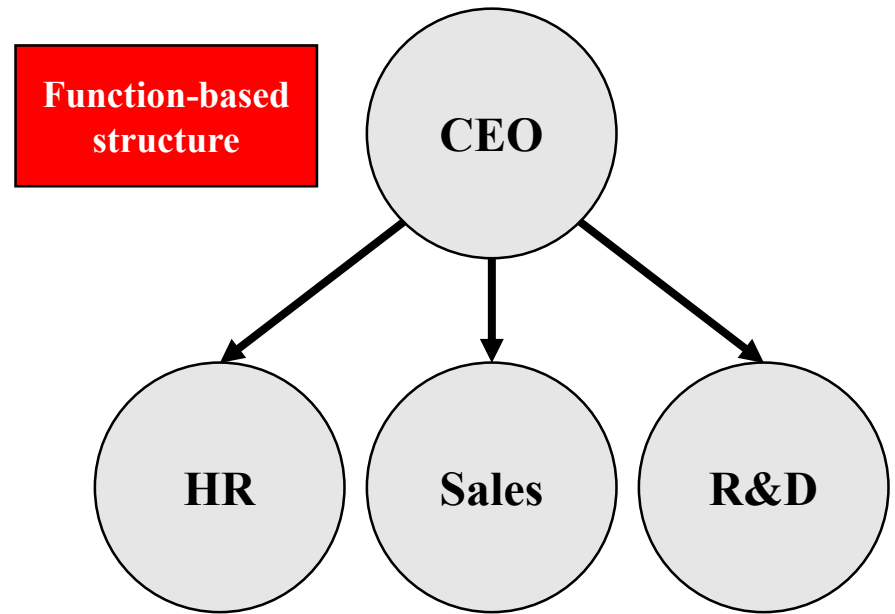


# Flat Organizational Structure

- **Flat organizational structure** has few or no hierarchical levels between employees, which means that all employees have essentially the same power and authority.
- The organization is structured based on self-management and a lack of managerial structures.



**Discussion: If customer relationship is highly valued by Company T, which organizational structure should it choose in the future?  
Function-based or market-based structure?**

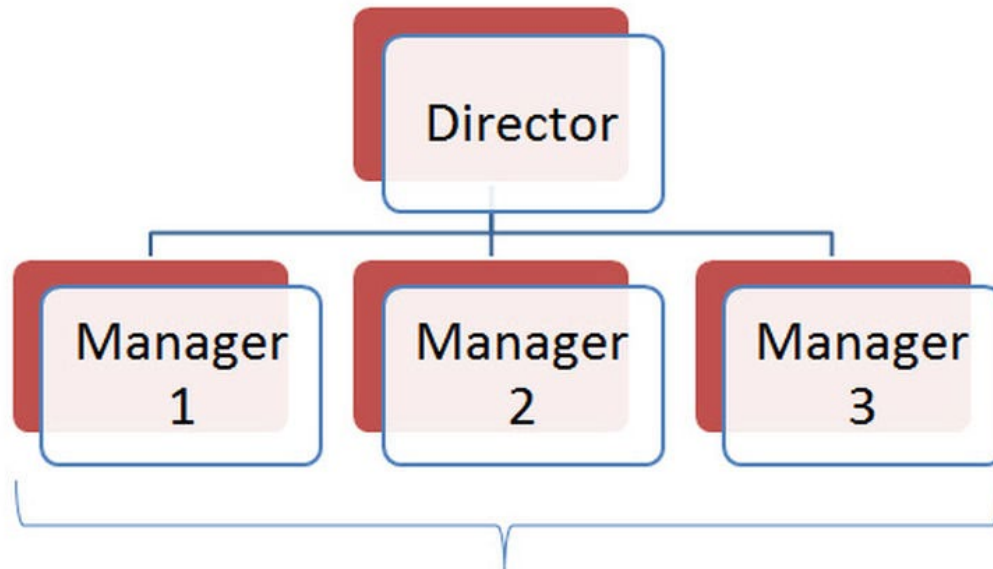


# Span of Control

- **Span of control** (or **span of management**) defines the optimal number of subordinates to be overseen by one manager.
- The bigger the number of the subordinates a manager controls, the broader is her/his span of control.
- In a hierarchical business organization of some time in the past, it was not uncommon to see average spans of **1 to 4 or even less**, i.e. one manager supervised four employees on average.
- In the 1980s corporate leaders flattened many organizational structures causing average spans to move closer to **1 to 10**. That was made possible primarily by the development of inexpensive **information technology**.

# Span of Control

- $\text{Span of control} = \frac{\text{number of employees}}{\text{number of managers}}$
- Example:



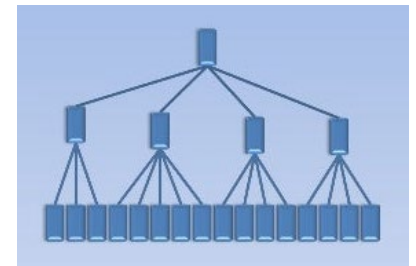
Span of control = 3



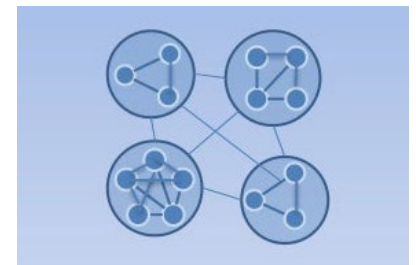
# Tall vs. Flat

- **Span of control** used in an organization determines whether the structure is tall or flat.

Tall structures	Flat structures
<ul style="list-style-type: none"><li>• Narrow span of control</li></ul>	<ul style="list-style-type: none"><li>• Wider span of control</li></ul>
<ul style="list-style-type: none"><li>• Large, complex organizations</li></ul>	<ul style="list-style-type: none"><li>• Simple, small organization</li></ul>
<ul style="list-style-type: none"><li>• Long chain of command</li></ul>	<ul style="list-style-type: none"><li>• Short chain of command</li></ul>
<ul style="list-style-type: none"><li>• Vertical communication takes time</li></ul>	<ul style="list-style-type: none"><li>• Heavy managerial workload – many subordinates.</li></ul>
<ul style="list-style-type: none"><li>• Formal relationship</li></ul>	<ul style="list-style-type: none"><li>• Informal relationship</li></ul>
<ul style="list-style-type: none"><li>• Sometimes called traditional or <b>mechanistic structure</b></li></ul>	<ul style="list-style-type: none"><li>• Sometimes called <b>organic structure</b></li></ul>



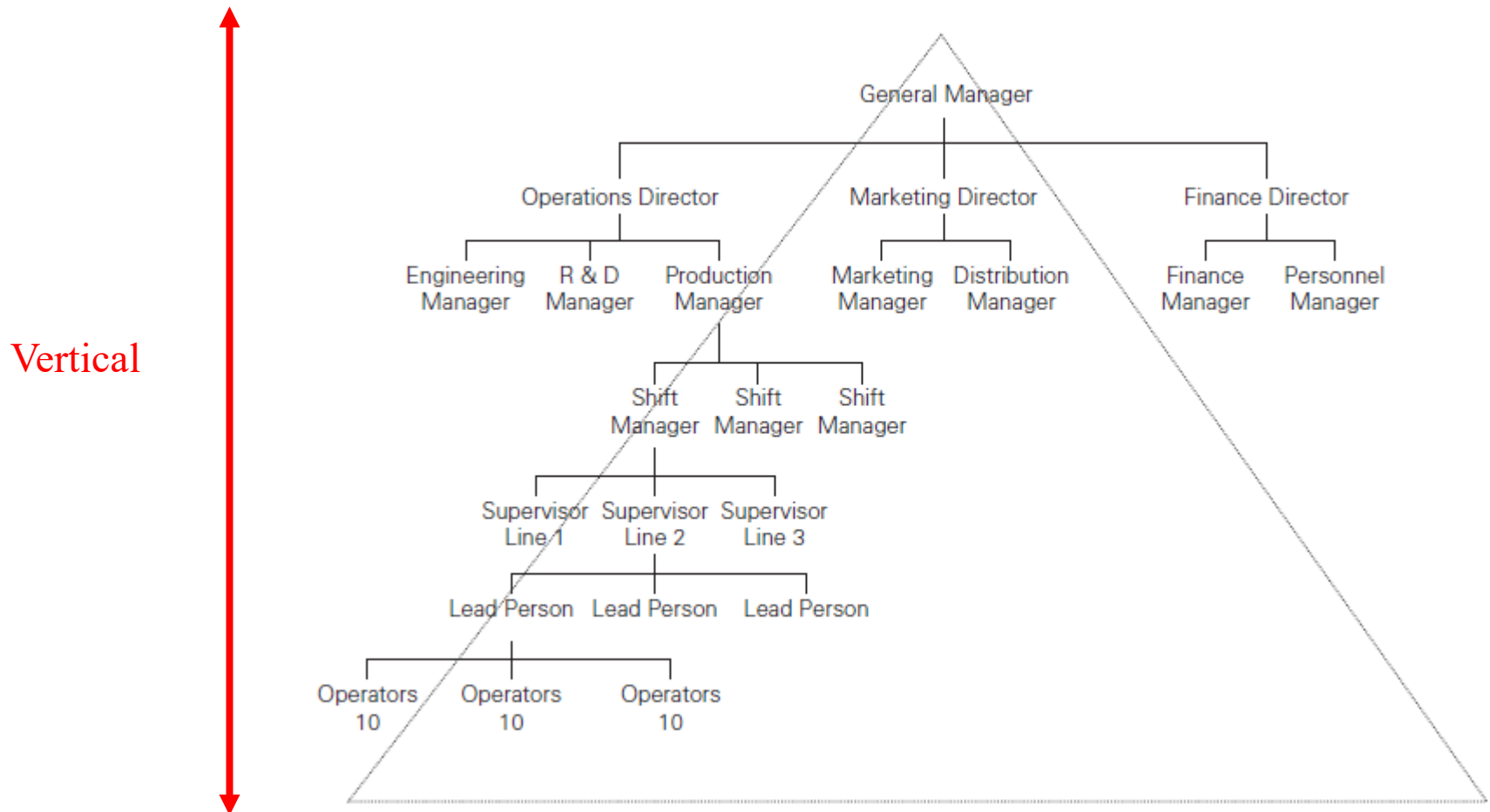
Tall structure (or mechanistic structure)



Flat structure (or organic structure)

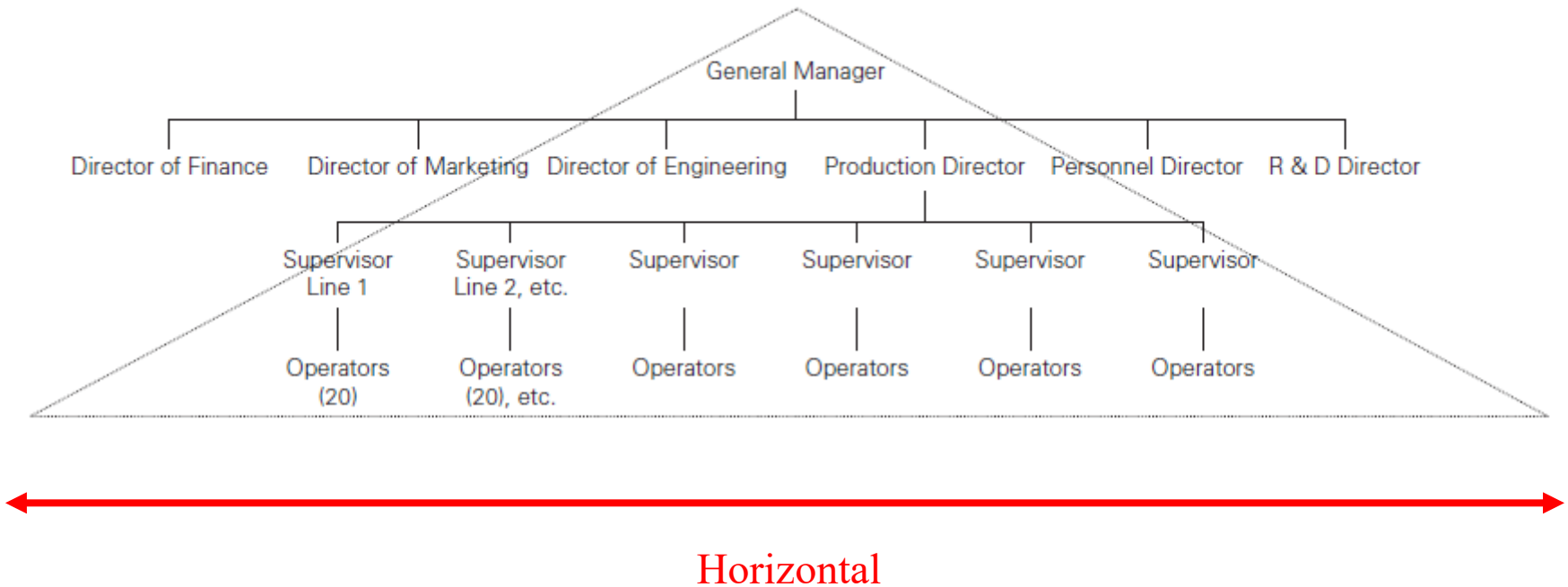
# Tall Structure

- Tall structure is characterized by **narrow span of control**.

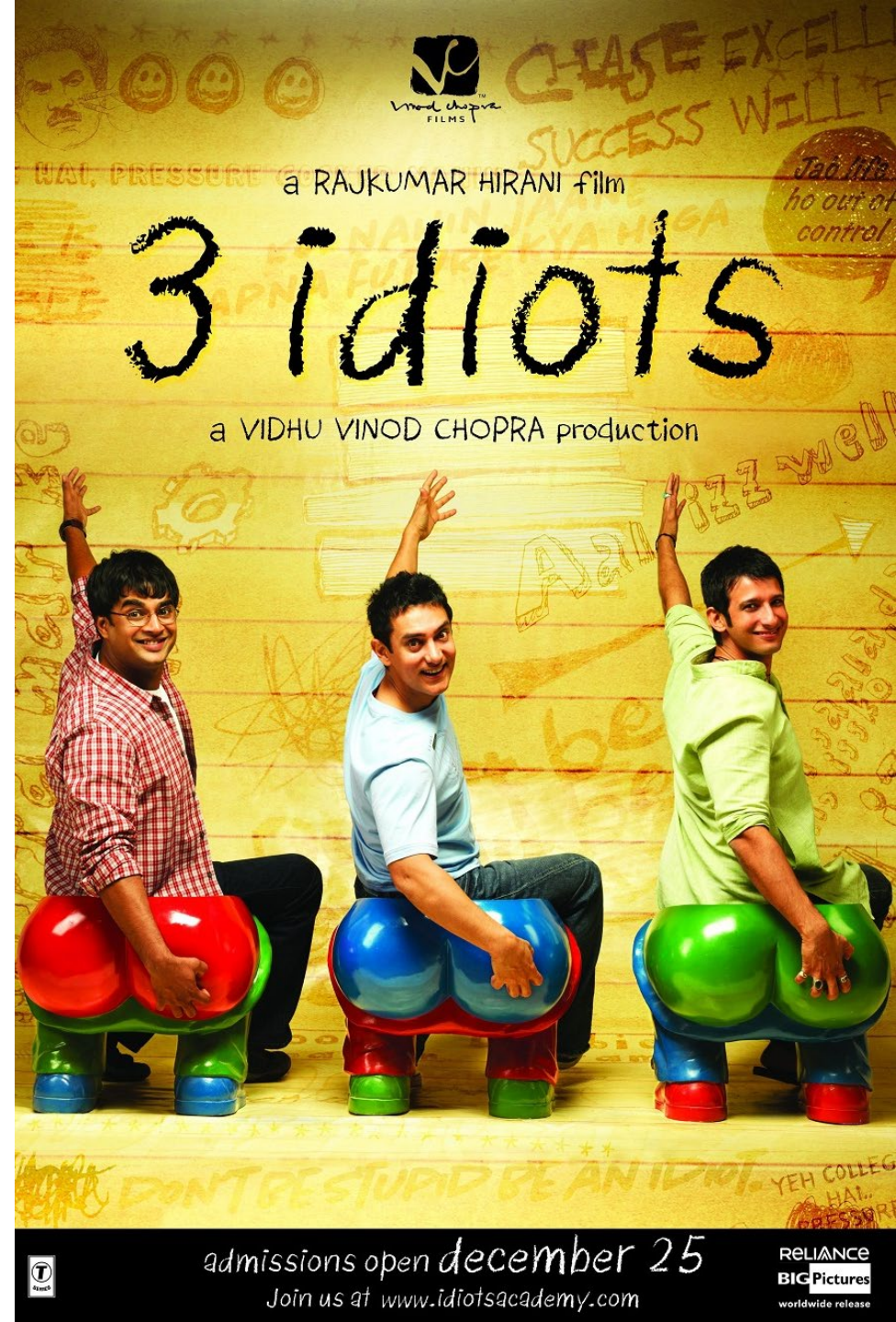


# Flat Structure

- Flat structure is characterized by **wider span of control**.



**Question: How should the  
SILC Business School be finely  
redesigned? Tall or flat  
structure?**



# Redesign the SILC Business School

- The following factors should be considered:

<b>Size</b>	
<b>Organizational technology</b>	
<b>Environment</b>	
<b>Goals and strategy</b>	
<b>Culture</b>	

# Review Question 1

- **Organization structure** is defined as \_\_\_\_\_.
  - a. a set of managerial decisions and actions
  - b. a formal framework by which job tasks are divided, grouped, and coordinated
  - c. a process that is done best if it is done quickly.
  - d. all of the above



# Review Question 2

- The term “span of control” or “span of management” refers to the \_\_\_\_\_?
  - a. extent to which authority is delegated at the individual level.
  - b. extent to which authority is systematically delegated to middle and lower levels of management.
  - c. number of subordinates reporting to a particular manager.
  - d. process of grouping job according to some logical pattern.
  - e. number of managers assigned to a department.





# Review Question 3

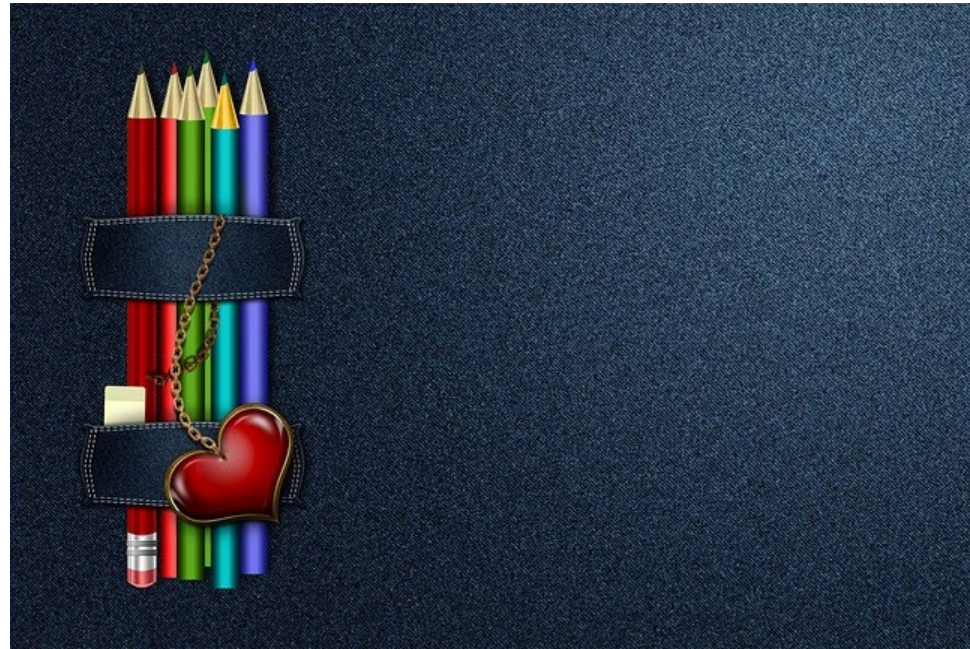
- Flat organizational structures are characterized by \_\_\_\_\_
  - a. low vertical differentiation and a relatively narrow span of control.
  - b. low vertical differentiation and a relatively wide span of control.
  - c. high vertical differentiation and a relatively narrow span of control.
  - d. high vertical differentiation and a relatively wide span of control.





# Review Question 4

- Grouping sporting equipment in one area, men's clothing in another area, and cosmetics in a third area, is an example of what kind of **departmentalization**?
  - a. Customer
  - b. Process
  - c. Geographic
  - d. Product
  - e. Outcome



# Review Question 5

- An **organic structure** includes the following characteristics except \_\_\_\_\_.
  - a. flexibility
  - b. free flowing
  - c. few rules and regulation
  - d. communication is vertical



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