Unit 5

Organizational Architecture

Organization Structure

Organizational structure is the foundation of an organization. It refers the differentiation of activities and integration of efforts. Organizational structure is a formal system of working relationships that both separates and integrates functions and duties. While separation of duties identifies the work responsibilities for each employee, integration of duties guides people how to engage together in teamwork. This enables combining all resources together effectively to achieve the operational and strategic objectives of a company.

An organizational structure defines how jobs tasks are formally divided, grouped, and coordinated. It explains how certain activities are delegated toward achieving an organization's goal. It outlines an employee's role and various responsibilities within a company.

According to Minterzberg

Organizational structure is the framework of the relations on jobs, systems, operating process, people and groups making efforts to achieve the goals.

According to Hill and McShane

Organizational structure refers to the location of decision-making responsibility in the firm, the former division of organization in to subunits, and establishment of integrating mechanisms to coordinate the activities of subunits.

Organizational structure (OS) is the systematic arrangement of human resources in an organization so as to achieve common business objectives. It outlines the roles and responsibilities of every member of the organization so that work and information flow seamlessly, ensuring the smooth functioning of an organization.

Organizational structures help managers and employees work together effectively by forming a basis for the following:

- i. Assigning employees to well-defined duties that enables them to realize their objectives and incorporate these into the strategic objectives.
- ii. Clarifying employees' responsibilities and how they should use lines of authority based on the organizational structure, which eases responsibility and accountability.
- iii. Designing effective communication channels that define the flow of information and employees' relationships, to ensure effective organizational performance.

Architecture of Organization

Concept

The term architecture refers to the complex and carefully designed structure. The organizational architecture is the structure and form by which an organization operates. Organization architecture constitutes the building block of an organization. It is an anatomy of organization configuration. Organizations' architecture is the structure or system of the organization. It is concerned with determining organizations' hierarchy, span of management, authority and responsibility and autonomy in the organization.

According to Burton and Obel,

Organizational architecture is a theory of a firm or multiple firms which integrates the human activities and capital resources within the structure of task allocation and coordination to achieve desired outcomes or performance both for the short term and strategic long term.

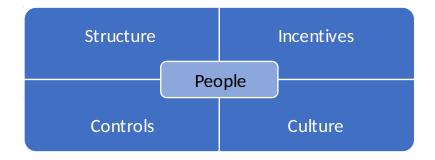
According to Hill and McShane,

"The term organizational architecture refers to the totality of a firm's organization including formal organization structure, control system and incentive system, process, organization culture and people."

The organizational architecture is the combination of the organizational structure, control system, culture and human resources management system that determines how efficiently organizational resources are used. It is the network of relationship among these components of the organization. Organizational architecture has two building blocks i.e. differentiation of activities and integration of efforts. Further differentiation is classified in to three types; Vertical differentiation, Horizontal differentiation, Spatial differentiation.

Elements of Organizational Architecture

Organization architecture refers to the totality of a firm's organization including formal organization structure, control system, incentive system, organizational culture and people.



1. Organization Structure

Organizational structure is a formal system of working relationships that both separates and integrates functions and duties. It includes three different things i.e. the location of decision making responsibilities (centralized and decentralized), the formal division of the organization into subunits of functions (Production, Finance, Marketing etc.) and establishment of integrating mechanism to coordinate the activities of sub units such as cross functional team.

2. Control

Controls are the mechanism used to measure performance of sub units and judge how well managers are running those units. It includes systematic process of evaluating performance, comparing actual performance with expected performance and taking corrective action to improve the performance.

3. Incentives

Incentives are devices to encourage individual's behavior and improve productivity by improving performance. It is essentially a tool to motivate people in the organization and make them ready to contribute for the achievement of organizational goals.

4. Organizational culture

Organizational culture refers to the value and assumptions that are shared among the employees of an organization. As the society has culture, so do organizations. Organizational culture has profound impact on how a form performs.

5. People

People are employees in the organization who are only one living resources out of many other resources deployed in the organization and they are crucial for organizational success. People element of organizational architecture consists employees of the organization, the strategy used recruit, compensate, motivate and retain those individuals and types of people they are in terms their skills, value and orientation.

Designing Organizational Structure

Designing organizational structure is concerned with the development of a hierarchy of position from top level to subordinate level of management of an organization. It includes creation of different departments, levels, defining and determining roles, responsibilities and relationship among various positions. The major integrating mechanisms are as follows:

- i. Vertical differentiation
- ii. Horizontal differentiation
- iii. Integrating mechanism

Vertical Differentiation:

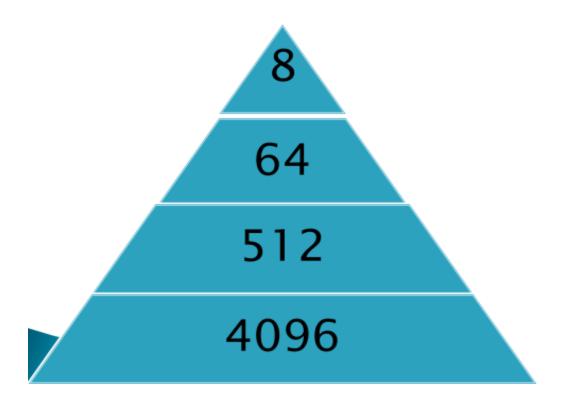
It is dividing the organization structure in to different layers or hierarchies or levels of authorities and responsibilities. It determines where the decision making power is concentrated. Vertical differentiation has two forms

- 1. Flat structure.
- 2. Tall structure

Flat Structure

The structure which has wide span of control with few numbers hierarchies is called flat structure. The number of people directly supervised by each manager is large, and the number of people in the chain of command is small or it contains fewer numbers of managerial hierarchy.

In this structure most middle-management levels and their functions have been eliminated where the top management is in direct contact with the frontline salespeople, shop floor employees, and customers. A flat organizational structure has few managers between the chief executive officer or president and the lowest-level employees. Organizations with highly skilled workers typically use this structure. The purpose is to allow individuals more autonomy in their daily work activities. It is based on assumption that employees are governed by self-direction, self-control and no external controls are required to mobilize their efforts towards the organizational goals.



Advantages of Flat structure

- 1. A decentralized decision.
- 2. Use of highly skilled employees.
- 3. Quicker decisions as employees waste little time.
- 4. Higher flexibility.
- 5. Better response of customer.
- 6. High morale and managerial effectiveness.

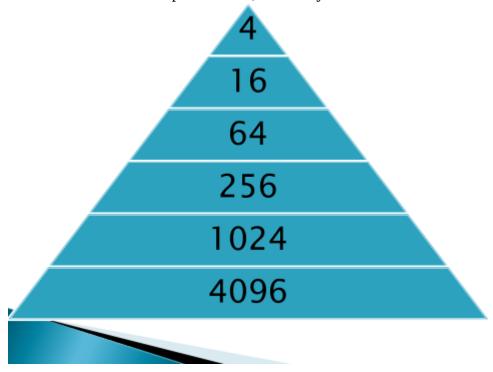
Disadvantages

- 1. Little management oversight can result in workers wasting time throughout the day.
- 2. Upper management may also be too far removed from daily decisions, creating difficulties for them to properly understand their business.
- 3. A lack of highly skilled employees is another problem that weakens this organizational structure.
- 4. Employees who cannot properly supervise themselves, set their schedules, or respond to department requests on time can create organizational problems

Tall Structure

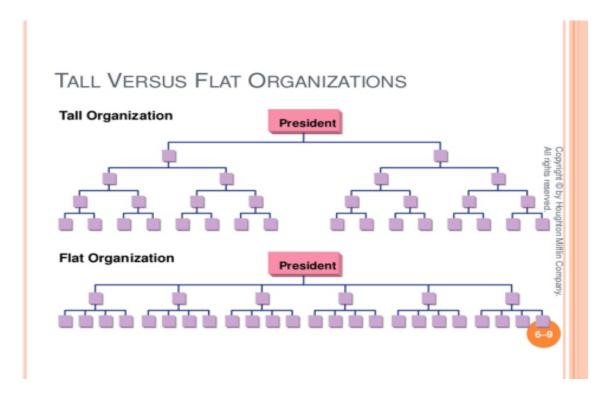
An organization which has narrow span of control and large numbers of organizational hierarchies is called tall structure. In this structure, there are many layers of middle management between top management and employees. Each layer of management often develops its own rules and procedures, which means that

employees who work several layers down in the company may have a great many rules and procedures to follow. This structure assumes that lower level employees lack the experience and knowledge to make good decisions for the company. Because managers in a tall organization only have a small number of employees to supervise, they are able to supervise more closely and spend more time on training employees. However it is characterized by centralized control, narrow span, extended communication from top to bottom, and unity of command.



In the above figures two companies are employed 4096 employees. In the fist figure, the span of control is 8 thus it involves only four levels the structure becomes flat, where as in the second figure, the span of control 4 which has six levels, the structure becomes tall.

So, we can say that wider the span flatter the structure and narrower the span tall the structure. The tall and flat structure can be also presented by following figures:



Advantages of tall structure

- 1. High opportunities for promotion of employees to management positions.
- 2. Employees who see potential growth opportunities tend to work harder as they strive for higher level positions.
- 3. Clear lines of communication in a tall organization,
- 4. Easier to control.
- 5. Strict discipline.

Disadvantages

- 1. Possibility to lead an "us vs. them" feeling among staff.
- 2. Decision making is often slowed down because approval may be needed by many different people.
- 3. Costly.
- 4. Suitable for large and complex organization.

1. Horizontal Differentiation:

It is concerned with the distribution of function. It divides the large organization in to different departments, divisions or units. The horizontal differentiation involves the division of a firm in to different sub-units on different basis such as based on function, products, areas etc. this division is often called as departmentalization.

Functional Structure

The structure composed of CEO with several line managers on the basis of functional

areas, such as production, marketing, finance, administration, research & development etc. and supportive staffs is called functional structure. In this structure, more power is taken by top managers and little power is given to lower level managers. The final decision is made by the top management and lower level managers have to follow rules & regulations. It is suitable for small and less diversified organization. The functional structure can be presented by the following figures:-



Advantages

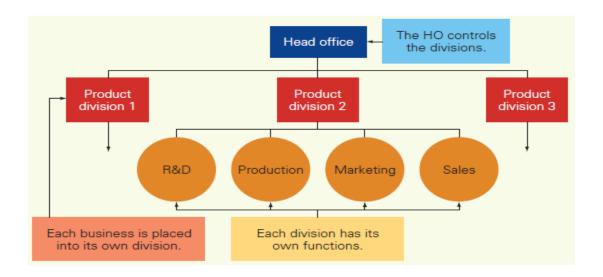
- 1. Division of labor
- 2. Simplified control
- 3. Direct supervision
- 4. Simple communication & decision making process.

Disadvantages

- 1. Problem on coordination among functional units.
- 2. Possibility of conflicts.
- 3. Over burden to CEO
- 4. Difficult to manage diversity

Multi Divisional Structure

When the organization is large in size and producing a variety of products, its structure is first divided on different basis such as products, customers or geographical areas and further divided on basis of specialization is called multidivisional structure. Each divisional heads are given autonomy to operate activities. It is suitable for large organization with diversified activities. The multidivisional structure can be presented by the following figure:



Advantages

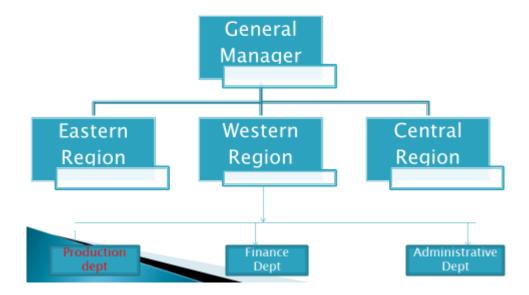
- i. Flexible on operation
- ii. Mgmt. of diversity
- iii. Encourage for mgmt. development
- iv. Clear Accountability.
- v. Autonomy to divisional manager

Disadvantages

- i) Costly
- ii) Possibility of conflict
- iii) Poor coordination
- iv) Unclear Responsibility

Geographical Structure

When the operation of organizations are dispersed at different parts of the country or at internationally, they are first divided on the basis of geographic region is called geographic structure. Under this structure activities are first grouped into regions, zones, districts etc. and each region is further classified into different functional units. In such structure, plans and policies are formulated by the head office and regional managers are responsible for customer satisfaction.



Advantages

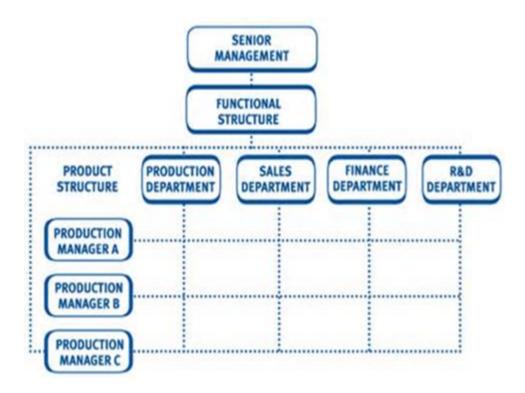
- 1. Helps to achieve local operation.
- 2. Facilitates expansion of business in to various region.
- 3. Considers environmental changes.
- 4. Address local demand more effectively.

Disadvantages

- 1. Problems on integration of various regional offices
- 2. Difficult to maintain central control over regional departments.
- 3. Shortage of skill and competent personnel to take charge of regional department.
- 4. Costly method of departmentalization.

Matrix Structure

The matrix organizational structure divides authority both by functional area and by project. In a matrix structure, there are two bosses, each employee answers to two immediate supervisors: a functional supervisor and a project supervisor. The functional supervisor is charged with overseeing employees in a functional area such as marketing or engineering. Project supervisors manage a specific and often impermanent project. They absorb employees from various functional areas to complete their project teams. It can be presented by following figure:



Some advantages of a matrix structure are as follows:

Environmental Adaptation:

Matrix organization has been designed to cope with the complexities of multiproduct, multinational organizations. This structure is able to adapt to changes in the environment. Responses to environmental changes are quickly made in this structure.

Sharing Resources:

This structure facilitates the proper sharing and utilization of highly specialized staff, equipment and resources. Each project or product unit can share the specialized resource with other units, rather than duplicating it to provide independent service for each.

Professional Identification:

The matrix organization provides the professional identification of specialists and professionals based on their specialization and efficiency. Talented specialists can be utilized more efficiently under this structure.

Flexibility:

Matrix structure fosters flexibility throughout eh organization. Various skills can be brought together in this type of organization.

Effective Control:

The main responsibility of the project manager is to maintain coordination among interrelated factors of a particular project. He has to communicate both with the diagnol, horizontal and vertical authorities so that the project work can be run

smoothly. Similarly, functional managers are responsible for providing technical and administrative guidance to projects. This leads to a better and more effective control over regular operation.

Matrix structure has several disadvantages. They are as follows:

Lack of Unity of Command:

In matrix structure, subordinates have to follow instructions from more than one superior. Generally, they receive orders from functional managers as well as from project managers. In some cases, subordinates may receive instructions from both the superiors at a time. This structure violates the principle of unity of command.

Costly:

This structure increases administrative cost. In this structure, specialists from the project as well as functional authorities involve in project works. It increases paperwork and other information costs. Besides, it is essential to pay lump-sum remuneration to functional and project specialists. Hence, this structure is costly to implement and maintain.

Power Struggle:

One of the main problems with the matrix structure is that the project manager and functional manager may not agree on priorities or resource allocations, leading to conflict and power struggle.

Difficulties:

Matrix structure requires a high level of interpersonal relations and skill. It is essential to involve both functional and project specialists. Besides, it is essential to maintain a balance among these authorities to bring about uniformity in the organizational performance. In practical field, it is more difficult to maintain a balance among these authorities, especially if they have no positive attitude towards each other.

Slowness in Decisions:

Functional and project specialists can shift responsibility for decision making. This delays decisions. Likewise, all decisions may become group decisions, leading to gross inefficiency.