Module III: "Organizational purpose & structural design"

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Agenda

13:00-14:00	Lecture part 1
Around 14:00-14:10	Break
14:10-15:30	Lecture part 2 + discussion (may finish earlier)

Preparatory Readings
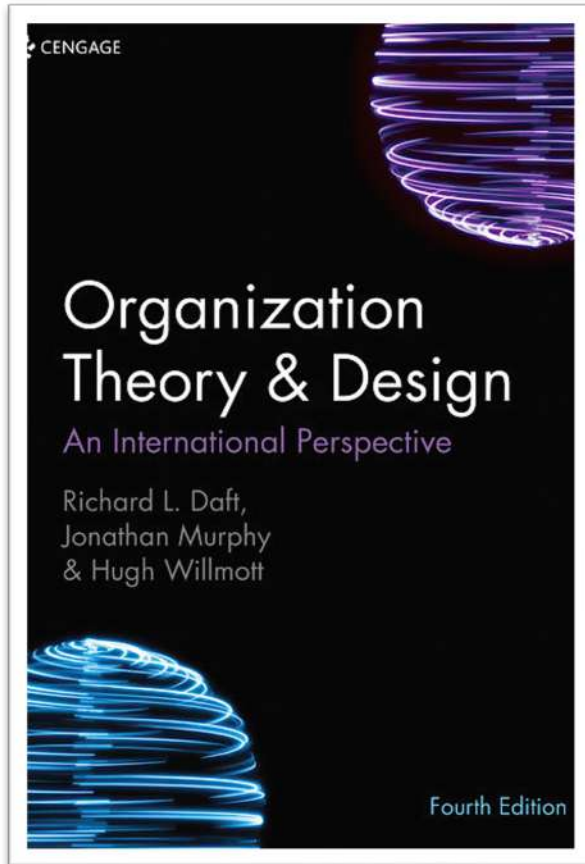
Mandatory:

Daft et al. (2020). *Organization theory & design* - Chapter 3-4 review

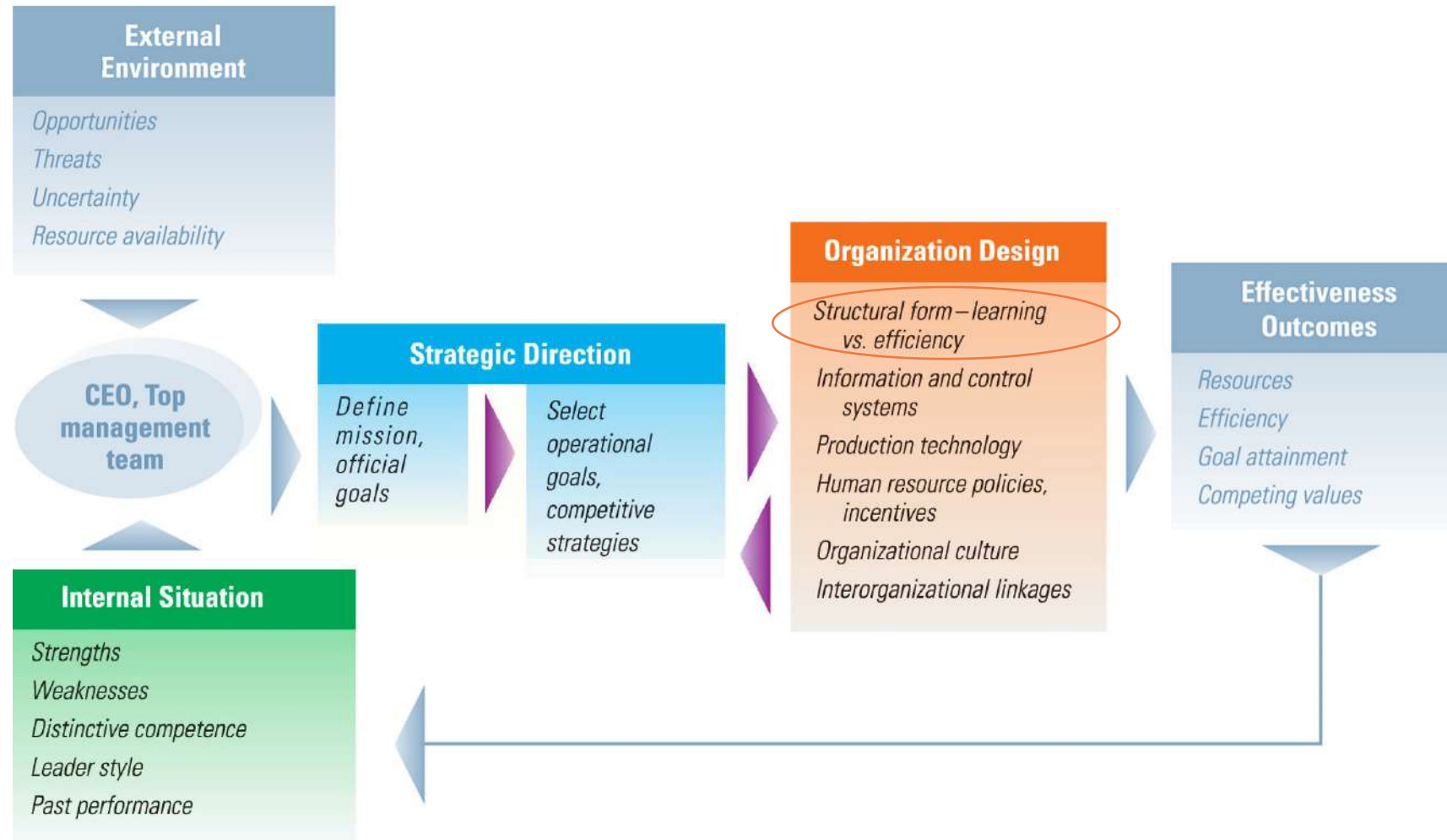Apple case: Podolny & Hansen (2020) – "How Apple Is Organized for Innovation"

Optional:
Davis & Lawrence (1978)
Battilana & Lee (2014)
Canvas videos

Organizational design: structural elements, influence of internal situation and strategy

(Daft, Murphy, & Willmott, 2020)

Lecture Part I

Organizational structures

Some core concepts for organizational design mentioned in this lecture

Formalization refers the degree to which employees are expected to behave according to official procedures and routines

Specialization refers to the extent to which jobs are subdivided into smaller tasks

Hierarchy of authority refers to arrangement into subordinate ranks (think about the organizational chart and reporting lines – is it tall or short? Does it look more vertical or flat?)
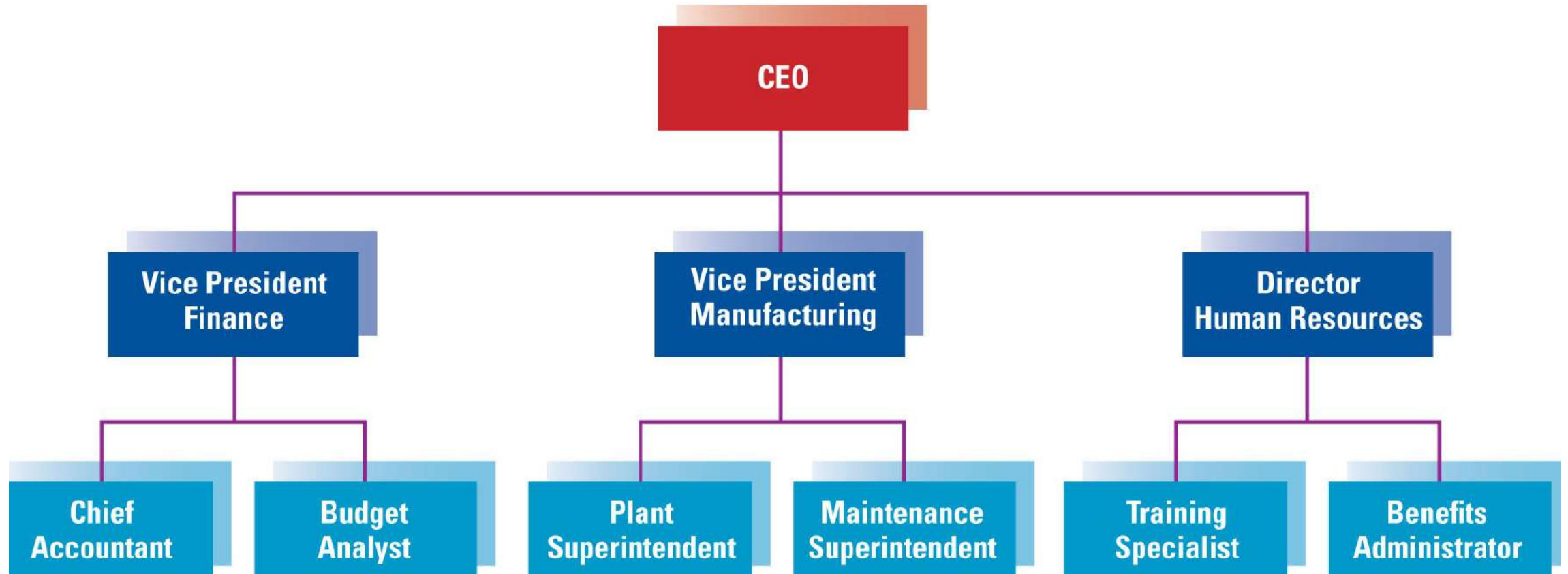
Centralization refers to the degree to which decision power is concentrated around an authority figure

Professionalism:refers to the level of education required for verious roles

Organizational chart


(Daft, Murphy, & Willmott, 2020)

Vertical linkages

- **Hierarchical Referral:** communication channels between hierarchies

- **Rules and Plans**: rules provide a standard information course enabling employees to be coordinated without communicating about every task (e.g., budget)

- **Vertical Information Systems**: periodic reports, written information and computer-based communications distributed to managers.

Horizontal linkages

- **Horizontal Information Systems**: cross-functional information systems for exchanging information beyond hierarchical structure

- **Direct Contact**: contact between managers or employees from different departments; locating employees close together to have direct contact on a regular basis.

- **Task Forces**: temporary committee composed of department representatives to solve common problems

- **Full-time Integrator:** full-time positions (product managers/project managers etc.) to achieve coordination between two or more departments.

- **Teams**: permanent task forces. A **virtual team** is made up of organizationally or geographically dispersed members linked through advanced communications technologies.

Dominant structural approaches
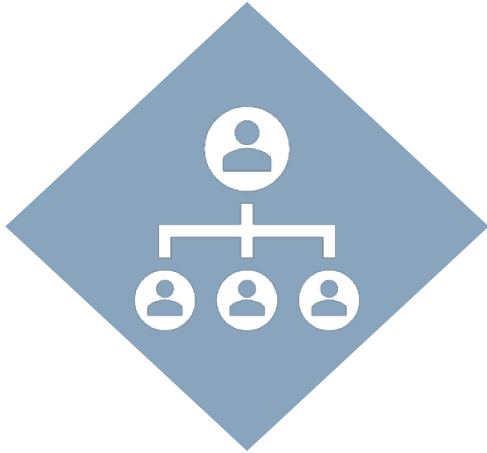
Vertical organization:
Designed for efficiency

Specialized tasks
Strict hierarchies and rules
Vertical communication, reporting systems
Few integrators and teamwork activities
Centralized decision-making
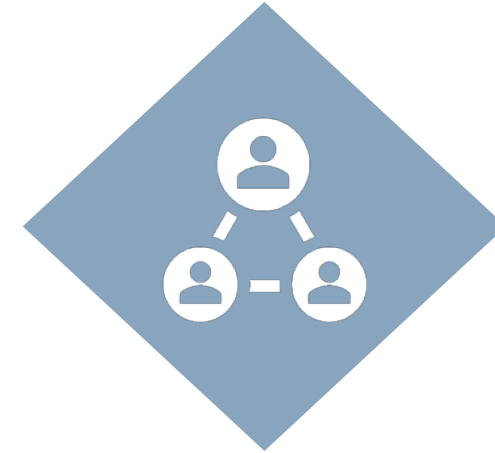
Horizontal organization:
Designed for learning

More shared tasks
Relaxed hierarchy and flexible rules
Face-to-face communication, information is
spread cross-functionally
Extensive teamwork
Decentralized decision-making

Structural Design Alternatives

- Simple

- Functional

- Divisional

- Matrix

- Flat (also known as horizontal)

- Virtual network

- Geographic structures (next lecture)

Most companies use hybrid approaches (mixes or the above).

Simple structure

- Often the first kind of structure when a **new organization** is formed.

- No division of labor, employees carry out different tasks, e.g. contact, sales, etc.

- With only a small number of employees, there is **no formal hierarchical reporting** and no chain of command.

- The running of the organization is therefore based on the personal values of the founder rather than on bureaucratic rules
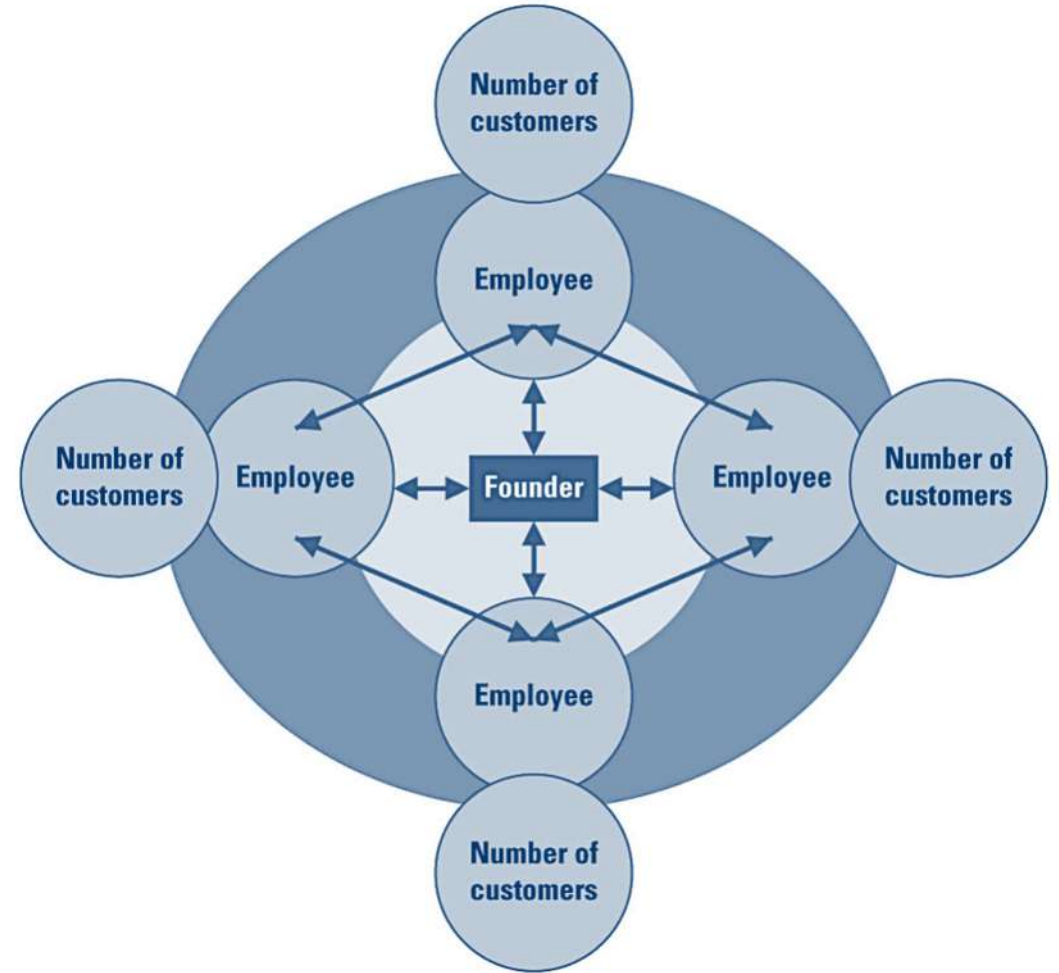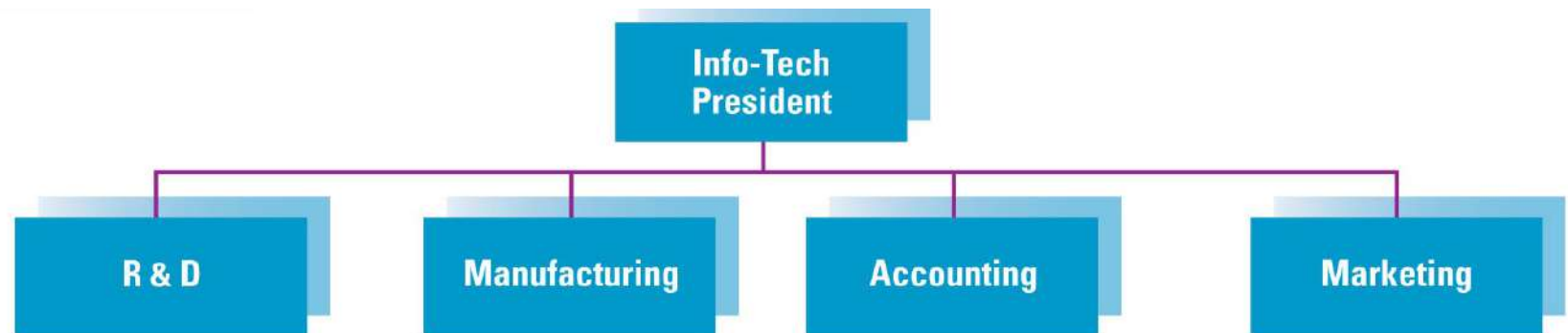
*What do you think are the **benefits** of such approach? What are the **disadvantages?** Discuss with your neighbor. 5 min*

Pros & Cons: Simple structure

Strengths	Weaknesses
1. Flexibility and quick response to changes in customer demands	1. Hard to know which employees do what
2. Enables employees to focus on product development (delivering value to customers)	2. Limited use of cross-abilities and development
3. High employee commitment, loyalty and adaptability	3. Eliminates economies of scale among employees
4. High responsiveness with commitment to end result	4. Big product portofolio
5. Strong clan and adaptive culture	5. Sometimes difficult to coordinate across different employees and customers
6. Good for small companies	

Functional structure

- Human knowledge and skills are *consolidated* with respect to specific activities in order to provide depth of expertise (e.g., marketing employees work together)

- *Centralized* decision-making

- Generally suitable for SMEs

*What do you think are the **benefits** of such approach? What are the **disadvantages?** Discuss with your neighbor. 5 min*
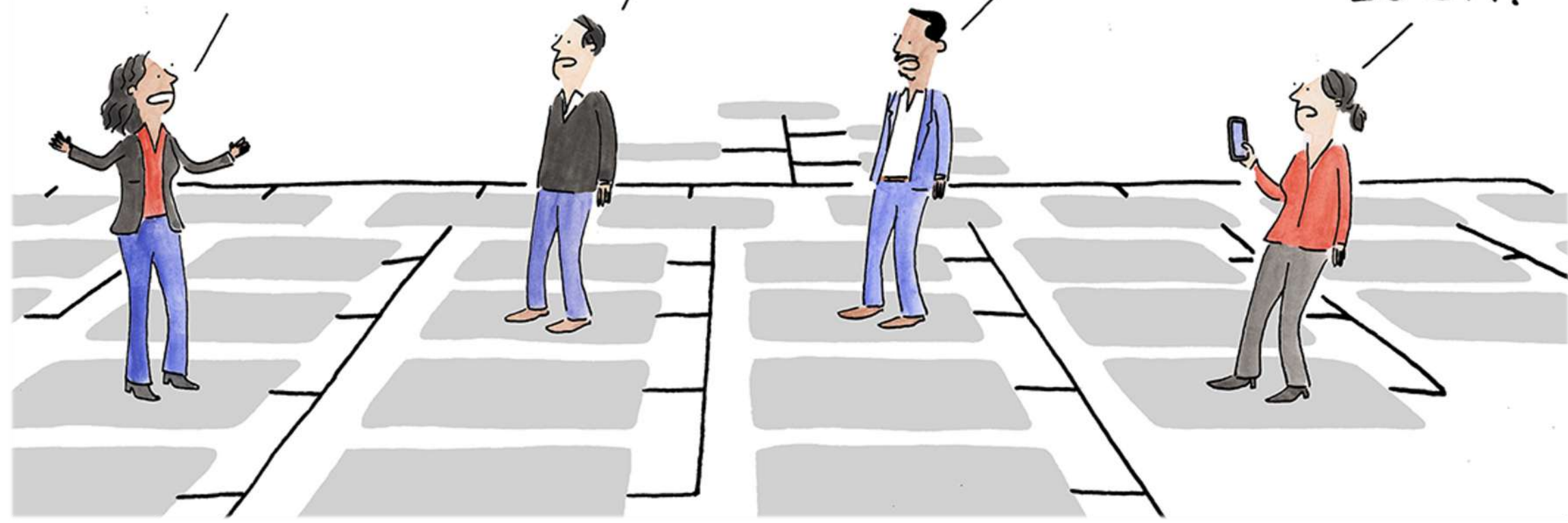
Pros & Cons: Functional structure

Strengths	Weaknesses
1. Allows economies of scale within functional departments 2. Enables in-depth knowledge and skill development 3. Enables organization to accomplish functional goals 4. Is best with only one or a few products	1. Slow response time to environmental changes 2. May cause decisions to pile on top, hierarchy overload 3. Leads to poor horizontal coordination among departments 4. Results in less innovation 5. Involves restricted view of organizational goals

Divisional structure

- Organized according to individual products, service, product groups, major projects or programs, divisions, business or profit centers.

- Decision-making is *decentralized*
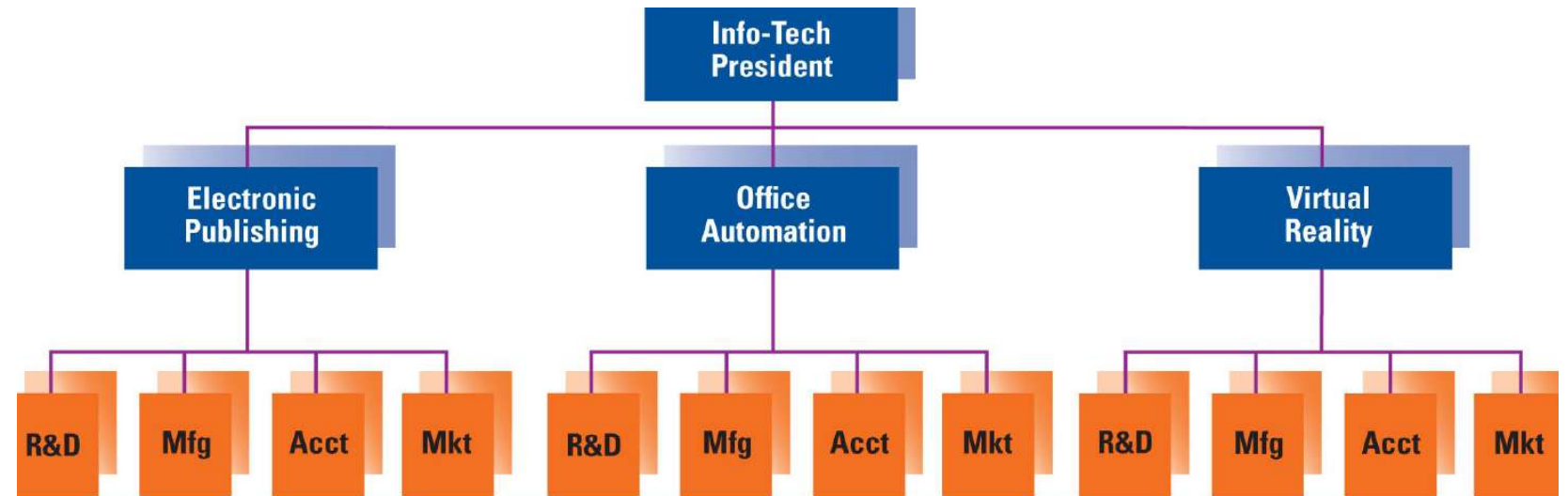
Pros & Cons: Divisional structure

Strengths	Weaknesses
1. Suited to fast change in unstable environment 2. Leads to customer satisfaction because product responsibility and contact points are clear 3. Involves high coordination across functions 4. Allows units to adapt to differences in products, regions, customers 5. Best in large organizations with several products 6. Decentralizes decision-making	1. Eliminates economies of scale in functional departments 2. Leads to poor coordination across product lines 3. Eliminates in-depth competence and technical specialization 4. Makes integration and standardization across product lines difficult

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Which type does LTU's structure mostly resemble? Discuss with your neighbor. 5 min. Slido #2676155
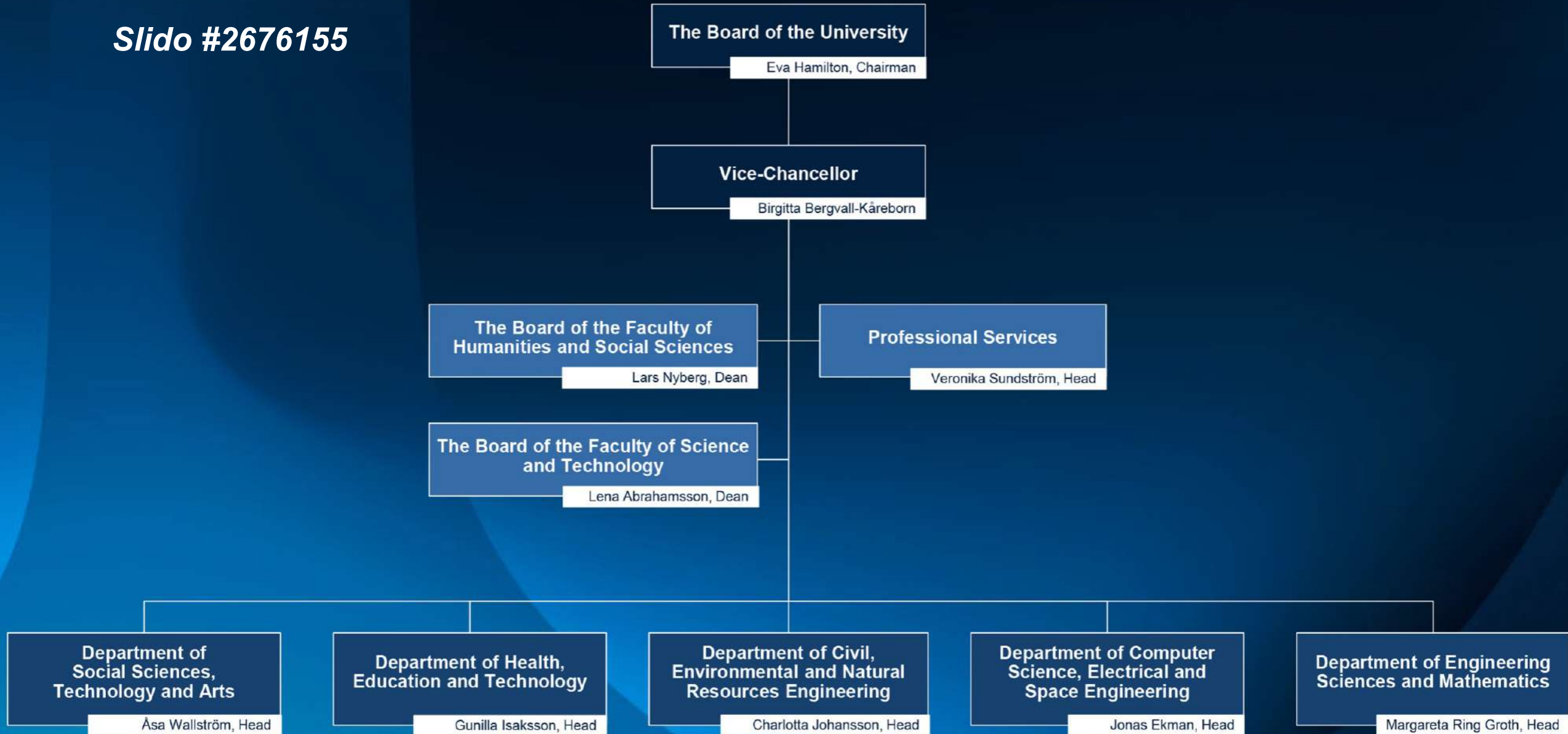
Matrix structure

functional matrix gives functional bosses primary authority, while project or product managers simply coordinate

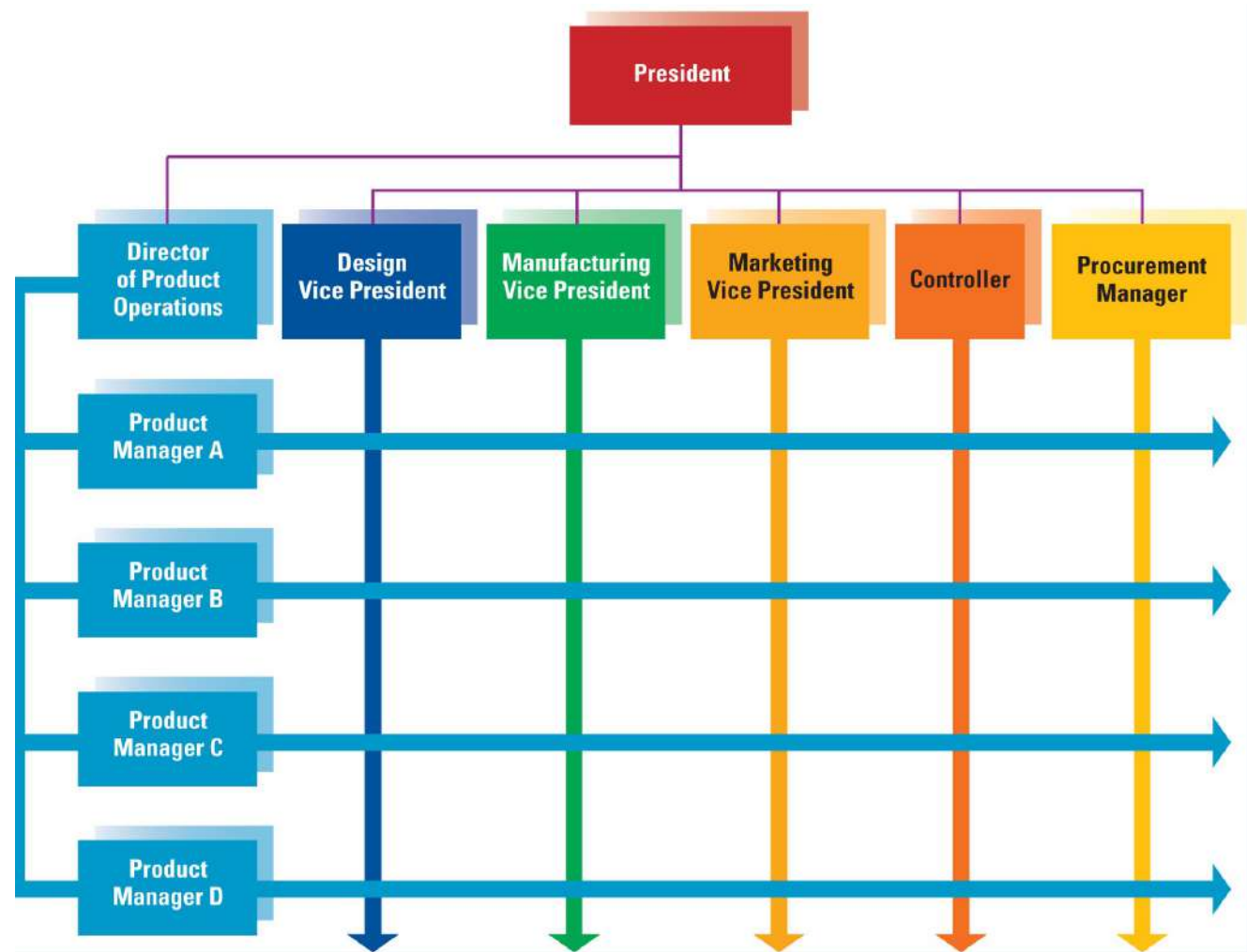*product matrix* gives the project or product managers primary authority, while the functional managers simply offer advisory expertise

Pros & Cons: Matrix structure

Strengths	Weaknesses
1. Achieves coordination necessary to meet dual demands from customers	1. Causes participants to experience dual authority, which can be frustrating and confusing
2. Flexible sharing of human resources across products	2. Means participants need good interpersonal skills and extensive training
3. Suited to complex decisions and frequent changes in unstable environment	3. Is time consuming; involves frequent meetings and conflict resolution sessions
4. Provides opportunity for both functional and product skill development	4. Will not work unless participants understand it and adopt collegial rather than vertical type relationships
5. Best in medium-sized organizations with multiple products	5. Requires great effort to maintain power balance

Electrolux structure (2021)
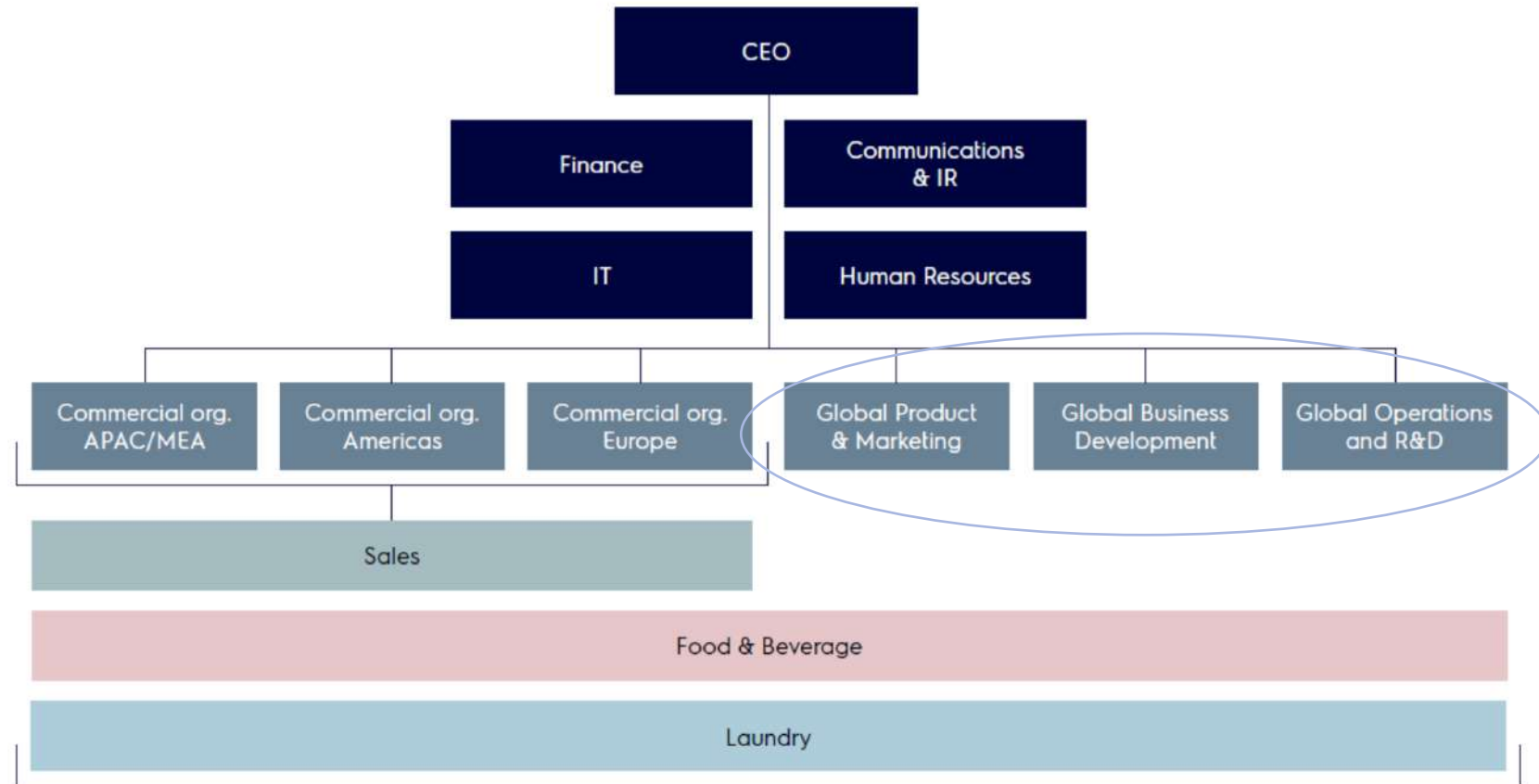
Virtual Networks

- The organization **subcontracts (outsources)** many or most of its major processes to separate companies and coordinates their activities from a small headquarters organization.

- Advantageous for start-up companies to be global

Pros & Cons: Virtual Network

Strengths	Weaknesses
1. Enables even small organizations to obtain talent and resources worldwide	1. Managers do not have hands-on control over many activities and employees
2. Gives a company immediate scale and reach without huge investments in factories, equipment or distribution facilities	2. Requires a great deal of time to manage relationships and potential conflicts with contract partners
3. Enables the organization to be highly flexible and responsive to changing needs	3. There is a risk of organizational failure if a partner fails to deliver or goes out of business
4. Reduces administrative overhead costs	4. Employee loyalty and corporate culture might be weak because employees feel they can be replaced by contract services

Flat Structure

- Organization around core processes

- Process owners are responsible for entire process.

- People on the team are given authority for decisions.
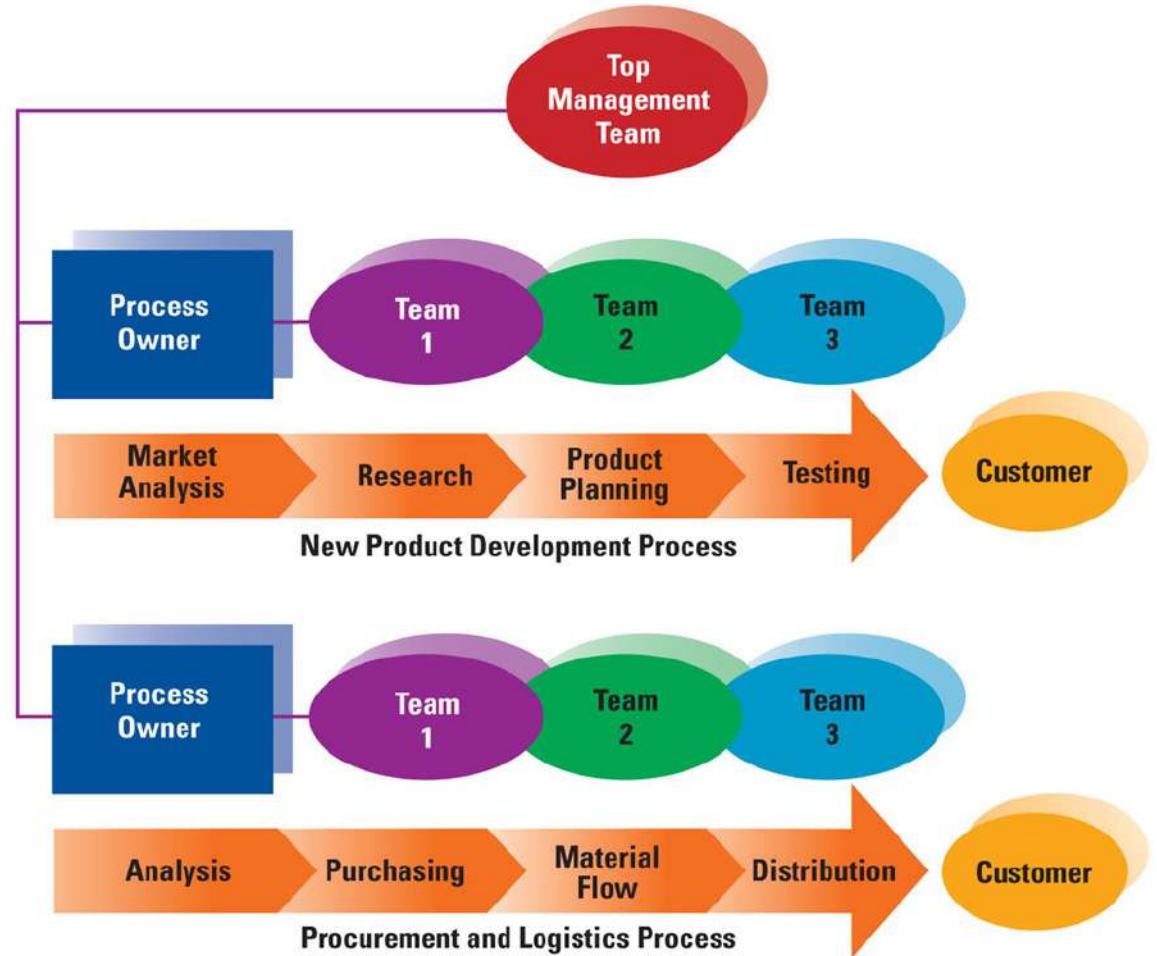
Pros & Cons: Horizontal structure

Strengths	Weaknesses
1. Promotes flexibility and rapid response to changes in customer needs 2. Directs the attention of everyone towards the production and delivery of value to the customer 3. Each employee has a broader view of organizational goals 4. Promotes a focus on teamwork and collaboration 5. Improves quality of life for employees by offering them the opportunity to share responsibility, make decisions and be accountable for outcomes	1. Determining core processes is difficult and time consuming 2. Requires changes in culture, job design, management philosophy, and information and reward systems 3. Traditional managers may baulk when they have to give up power and authority 4. Requires significant training of employees to work effectively in a horizontal team environment 5. Can limit in-depth skill development

Examples of flat structures

Zappos: Holacracy, formally eliminated people managers and gave individual employees full autonomy over how they would execute their roles

Valve: "nobody 'reports to' anybody else. We do have a founder/ president, but even he isn't your manager. This company is yours to steer—toward opportunities and away from risks. You have the power to green-light projects. You have the power to ship products" (employee Handbook)
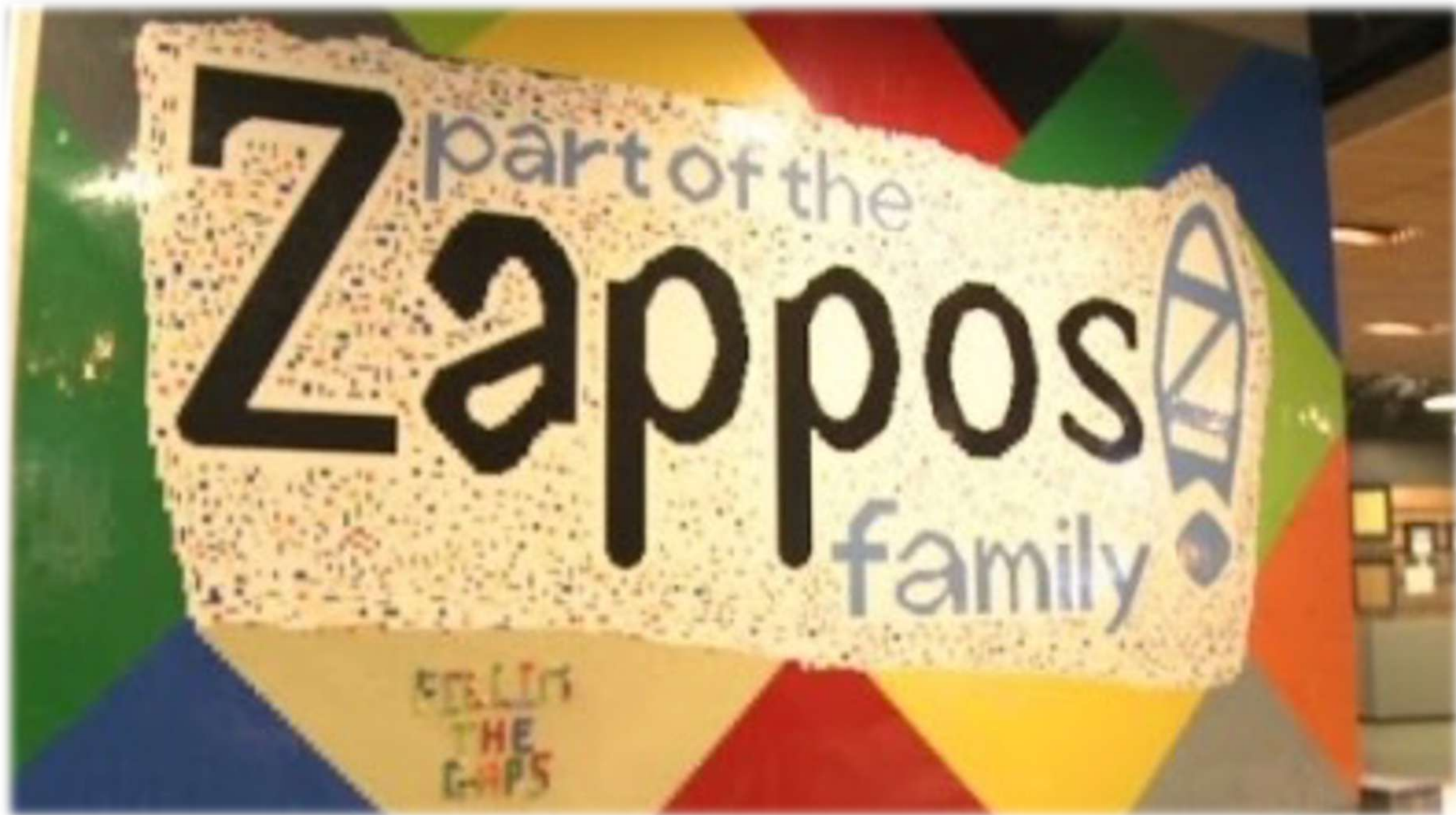
**BREAK
15 MIN**

Lecture Part II

Goals, strategy and its influence on organizational design

Organizational design reflects the way **strategy and goals are implemented** in response to contextual factors such as environment, size and life cycle, technology, etc.

Organizational Vision

- **Vision -** reason for existing

- **Official goals** - formally stated (e.g. in policy documents) and broadly defined desired outcomes

Operational goals

Specific and **measurable** desired outcomes regarding **day-to-day activities**, e.g.:

- Performance

- Resource

- Productivity

- Market

- Employee development

- Innovation & change

Strategy

Plan for interacting with the competitive environment **to achieve organizational goals**

"Strategy is the creation of a **unique and valuable position**, involving a different set of activities" (Porter, 1996)

Porter's strategy typology

Low-cost leadership

increasing market share by emphasizing low cost compared to competitors
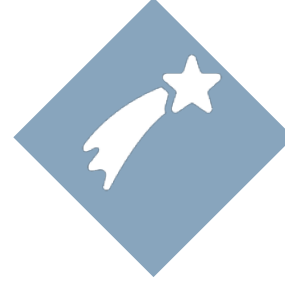
Differentiation

distinguishing products or services from others in the industry

Focus (focused low cost or focused differentiation)

concentrating on specific regional market or buyer group

Which strategic approach do you think would help describe Ben & Jerry's?
Discuss with your neighbour.

Miles and Snow's typology

Prospector

innovation & risk-taking orientation to suit dynamic growing environments;

Defender

stability & customer retainment orientation suitable for stable or declining industries;

Analyzer

maintaining stability while innovating at periphery, targeting current and emerging environments simultaneously

Reactor

lack of long-term view, ad hoc approach to immediate threats and needs

Which strategic approach would help describe Exxon Mobil? Discuss with your neighbour.

"

"ExxonMobil is committed to providing reliable and affordable energy to support human progress while implementing and advancing effective solutions to mitigate environmental risks" (communicated in 2021)

Impact of strategy on organizational design

Strategy: Differentiation
Organization Design:
- Learning orientation; acts in a flexible, loosely knit way, with strong horizontal coordination
- Strong capability in research
- Values and incorporates mechanisms for customer intimacy
- Rewards employee creativity, risk taking and innovation

Strategy: Low-Cost Leadership
Organization Design:
- Efficiency orientation; strong central authority; tight cost control, with frequent, detailed control reports
- Standard operating procedures
- Highly efficient procurement and distribution systems
- Close supervision; routine tasks; limited employee empowerment

Strategy: Prospector
Organization Design:
- Learning orientation; flexible, fluid, decentralized structure
- Strong capability in research

Strategy: Defender
Organization Design:
- Efficiency orientation; centralized authority and tight cost control
- Emphasis on production efficiency; low overhead
- Close supervision; little employee empowerment

Strategy: Analyzer
Organization Design:
- Balances efficiency and learning; tight cost control with flexibility and adaptability
- Efficient production for stable product lines; emphasis on creativity, research, risk taking for innovation

Strategy: Reactor
Organization Design:
- No clear organizational approach; design characteristics may shift abruptly, depending on current needs

?

A lot of companies nowadays are communicating social and environmental sustainability strategies.
Do you think it affects their organizational design? How? Discuss with your neighbour.
5 min

Hybrid organizations refer to organizations that combine **multiple logics** such as seek to alleviate social or /and environmental problems while simultaneously making profit (Haigh, Walker, Bacq, & Kickul, 2015)

Hybrid organizing is "activities, structures, processes and meanings by which organizations make sense of and combine aspects of multiple organizational forms" (Battilana & Lee, 2014)

CAKE venture in Sweden promoting fossil-free bikes while seeking first-mover advantage

Organizational challenges of hybrid organizations

Pronounced internal tensions and **confusion** over competing logics (e.g., resource allocation) (Jay, 2013) Can result in "paralysis" or suboptimal strategies to merge competing goals

Resistance strategies to conflicting demands (Oliver, 1991)

Compromising

Minimum requirements, bargaining with affected stakeholders to find an acceptable balance, **partial attendance to dual goals to avoid losing legitimacy**

Avoiding (Decoupling)

Hiding their nonconformity, symbolic gestures; Escaping the pressure (e.g., moving production to emerging economies)

Defying

Ignoring or openly denying external pressure (e.g., denying climate change)

Manipulating

Attempts to actively change expectations and norms – lobbying, building coalitions that jointly defy social values, influencing public opinions

Greenwashing

Referred to act of misleading stakeholders regarding the environmental practices of a company (firm-level greenwashing) or the environmental benefits of a product or service (product-level greenwashing) (Delmas & Burbano, 2011)

General Electric's "Ecomagination" campaign - advertised environmental efforts while it simultaneously lobbied to fight new clean air requirements.

"Ecomagination is GE's commitment to address challenges such as the need for cleaner, more efficient sources of energy, reduced emissions and abundant sources of clean water"

Structural considerations in hybrid organizing – emergent research

- Spatial separation - Depends on whether the goals can be mastered by the same individuals and the degree of goal conflict - both dominantly **functional and divisional** structures may be appropriate

- Temporal separation of goals may be a suitable option

- Requires **spaces for trade-off negotiation** and **learning**

(Battilana & Lee, 2014)

Case from research (mining company in Sweden)

- Mine digitalization. Mission to set world standard in mining with improved efficiency (economic benefits), better working conditioned (social benefits), optimized energy and automated electric machinery (environmental benefits)

- Highlight importance of **separating the goals into minor tasks (activity cards) but then holding discussions and a broader "roadmap"** to keep focus on the "bigger picture". Risk of failing to maximize on all goals when tasks are separated, risk of confusion when tasks are merged. **Balanced approach.**

"It's really difficult for someone that sits there and has many threads going at the same time…I have to be aware of all these things going. The time to do concentrated work actually is eliminated....I'm the lowest level, I'm an engineer. I'm the one who sits and simulates, but in this sort of projects, I become middle management because there have so many threads to hold" [Development engineer]

Other organizational design considerations for hybrid organizations

Top management engagement: regular board level checks on realization of dual goals to avoid "mission drift", often need for sustainability mission "champions", inviting affected stakeholders to board meetings

Staffing: high levels of professionalism to sensemake on synergies, blended background or separate backgrounds in business and in sustainability

Incentives and controls: Both operational and sustainability KPIs (key performance indicators)

Based on Santos, Pache, & Birkholz (2015)

Gender diversity in organizational structures

Two perspectives to motivate gender diverse structures (Campbell & Mínguez-Vera, 2008; Guzman & Kacperczyk, 2019)

The ethical-moral perspective

Creates equal societal opportunities and distribution of influence and power

The efficiency perspective

Capture otherwise unexploited competence and avoids therefore neglection of economic growth potential

Ethical-moral perspective

Assumption that **women and men are alike** at large and therefore there should be an equal distribution in organizational positions. Another assumption is that they are different because they develop different sets of values during socializing and upbringing (recent Nobel prize – lack of female role models)

- **This perspective states that underrepresentation of women or men in positions is a form of discrimination**.
- **Women should be provided the same opportunities and the same fair terms to climb the organizational hierarchy ladder**. The argument is based on that the amount of women on the labor market is in parity with the number of men on the labor market, a distribution which should be reflected in the higher positions in the organization

Risk that the **women's competences are not acknowledged**, in particular when there is a lack of motivation within the management to achieve actual changes in accountability rather than increasing legitimacy.

The efficiency perspective

Argue that women's and men's **intelligence is alike** and therefore organizations should not rely on recruiting and promoting individuals from only half of the accessible pool of competence.

- Research demonstrate the **advantages of heterogeny groups/teams through gender diversity to improve innovation and organizational performance.** A gender diverse representation in an organization stimulate **deeper discussions and integrate more diverse information and perspectives, stimulate collaboration**. Experiences, knowledge and values shape how members search and interpret information. Those are different between men and women.

- A gender diverse organization at all levels also **signal that the organization is well prepared for understanding the surrounding and market needs of female population**

- The presence of women on boards of directors is associated with **higher corporate environmental performance** (Post, Rahman, & McQuillen, 2015)

Poor structural alignment (fit between organizational design and company's needs) can lead to **decline or even the demise of the organization.**
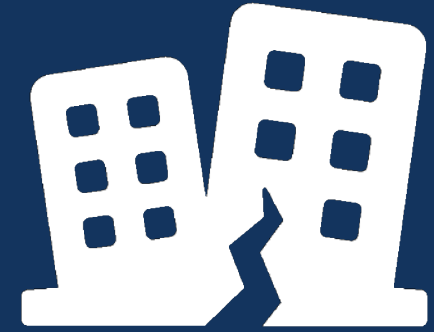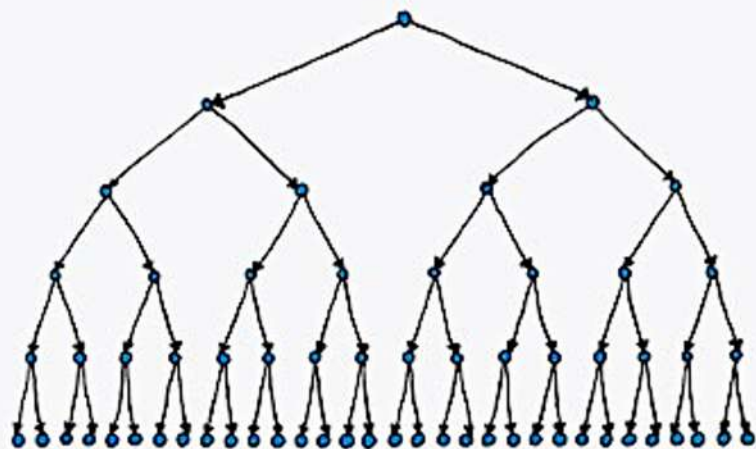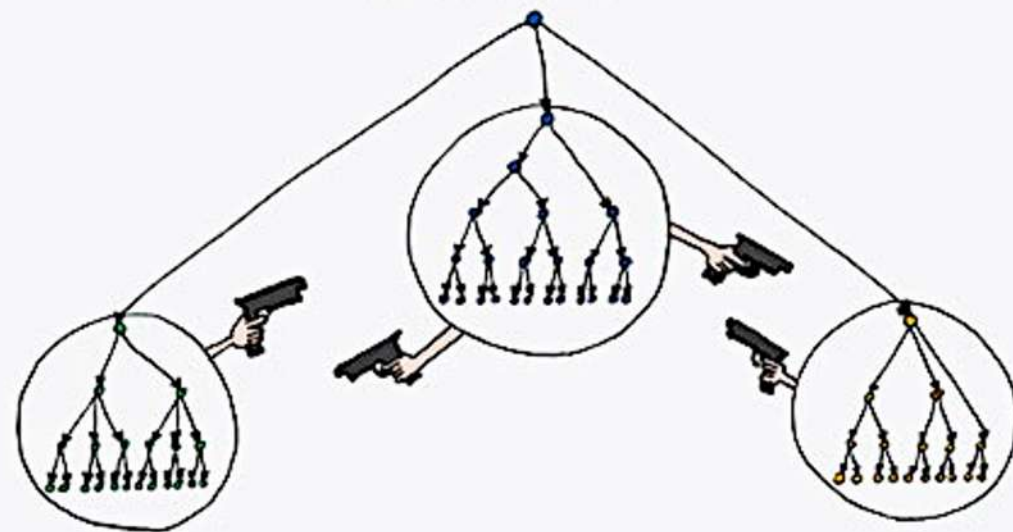
Symptoms of structural deficiency:

- Decision making is delayed or lacking quality.

- Organization does not respond innovatively to a changing environment.

- Employee performance declines, goals are not being met.
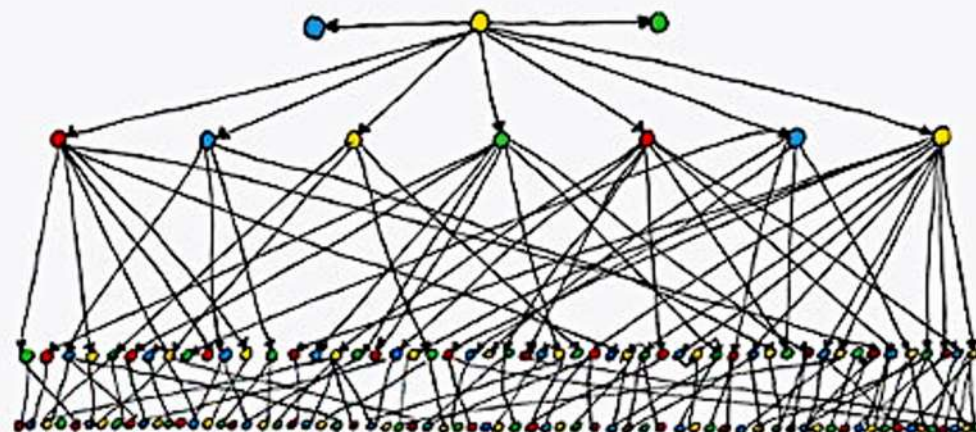
- Too much conflict.

AMAZON

MICROSOFT

GOOGLE

Practical examples of structural deficiency (Corkindale, 2011)

The "unworkable" job

"a Swiss engineer told that his boss had bolted on so many parts to his original role that it was becoming impossible to do his work as **one part of his role contradicted the other.** Moreover, he was **stretched beyond his limits by the scope of the role and the fact that he had to operate across several time zones**."

Over-regulation

"a British banker explained how he was **required to get approval from so many people for a major project that he wasted six months** trying to get it off the ground, severely limiting his ability to compete in the market."

Politics

"a Hong Kong retail executive said his role was "schizophrenic" because he was required to influence a group of **internal stakeholders who had been instructed by their boss not to co-operate with him**."
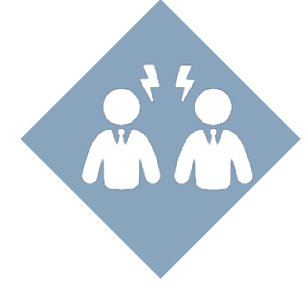
Cultural clashes

"I once worked in a consultancy firm where a sizeable group of people still **defined themselves by the organizational culture of a company that was taken over 20 years before**. This group made a point of working against the new culture and subverted the company in small and far-reaching ways."

What organizational structure would typically suit a large company with a large portfolio of innovative products? Argument your choice of structure using theory. Exemplify how that would work on practice.

Exam mock question – try to use the criteria bellow to answer. 10 min. *Slido #2676155.*

Excellent (5 points)	Good (4 points)	Fair (3 points)	Poor (0-2 points)
For example: Builds on "good" by showing deep and broad understanding of the concepts, models, and theories in the development of a reflective answer. Multiple approaches are considered and compared. Elements of originality.	*For example:* Builds on "fair" by displaying good understanding of the main ideas related to the question. All concepts/models/theories are applied appropriately. Examples are appropriately used to substantiate claims.	*For example:* Builds on "poor" by demonstrating fair ability to explain and discuss concepts related to the question. There are no major errors of understanding. However, argumentation could be clearer and/or be better supported by examples.	*For example:* The answer does not address the question or demonstrate sufficient understanding. The student may be mentioning concepts inappropriately, uses irrelevant examples, fails to support the claims which they make.

Case review

Apple's organizational structure

Discuss with your neighbor.

- Identify what kind of organizational structure Apple had before and after Steve Jobs returned as a CEO.

- Jointly come up with one main suggestion how how Apple could improve its structure (think of weaknesses of chosen approach)? All answers are valid, so get creative!

(Slido when you are done #2676155)

15 min
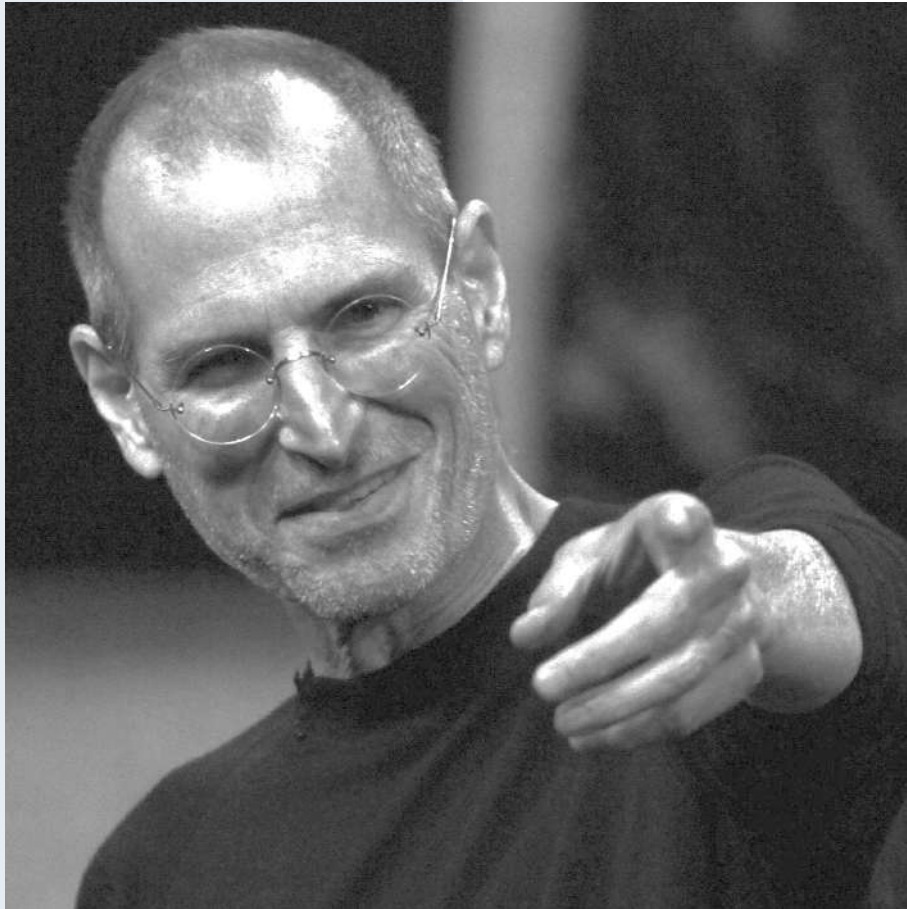
"We went through that stage in Apple where we went out and thought – Oh, we're gonna be a big company, let's hire professional management. We went out and hired a bunch of professional management. It didn't work at all….They knew how to manage, but they didn't know how to do anything.

And you know what's interesting? You know who the best managers are? They are the great individual contributors who never, ever want to be a manager but decide they have to be…because no one else is going to do as good a job."

Course outline: Next up

Start filling your case report with content!

Parallel Conduct of Group Case Study
(activities will include group report production, opposition report production, presentation preparation)

2 study days, 30ish questions

Quiz · Quiz · Quiz · Quiz · Quiz

Module 1: Introduction to the course & organizational theory (EJ, NMG, MM)

Module 2: Project management & group assignment introduction (NMG)

Module 3: Organizational purpose & physical structures (EJ)

Module 4: Open system design elements (EJ)

Module 5: Internal design factors (NMG)

Module 6: Business models (EJ)

Submission of power point report and recorded video for review (peer and teacher).

Submission of peer feedback.

Presentation of Re-worked Group Report

On-site exam

*Key milestones for the group work

Library Course – **Information search** (Online)

Library Course – **Referencing** (Online)

Check "Anslag"

Check out instructions on Canvas for home reading! Scan through chapters and more thorough read of case.

Q&A - please speak up if you have a question

Regarding questions on this module please contact:

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E-mail: elizaveta.johansson@ltu.se

References

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