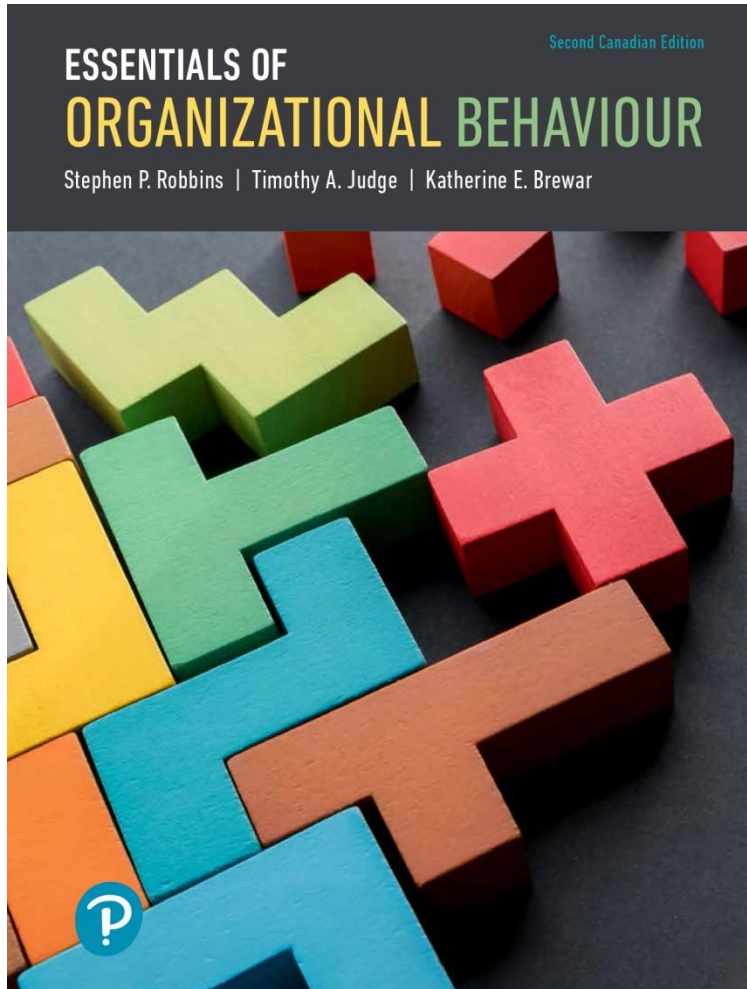# Essentials of Organizational Behaviour
Second Canadian Edition

Chapter 15

Foundations of Organization Structure

Learning Objectives

After studying this chapter you should be able to:

15.1 Identify the six elements of an organization's structure.

15.2 Identify the characteristics of the three most common organizational designs.

15.3 Describe the characteristics of the virtual organization, the boundaryless organization, and leaner organizations.

15.4 Demonstrate how organizational structures differ, and contrast mechanistic and organic structural models.

15.5 Analyze the behavioural implications of different organizational designs.

What is Organizational Structure?

Defines how job tasks are formally divided, grouped, and coordinated

- Key elements:
    - Work specialization
    - Departmentalization
    - Chain of command
    - Span of control
    - Centralization
    - Decentralization
    - Formalization

The Key Question	The Answer Is Provided By:
1. To what degree are activities subdivided into separate jobs?	Work specialization
2. On what basis will jobs be grouped together?	Departmentalization
3. To whom do individuals and groups report?	Chain of command
4. How many individuals can a manager efficiently and effectively direct?	Span of control
5. Where does decision-making authority lie?	Centralization and decentralization
6. To what degree will there be rules and regulations to direct employees and managers?	Formalization

Key Questions and Answers

Exhibit 15-1 Key Design Questions and Answers for Designing the Proper Organizational Structure
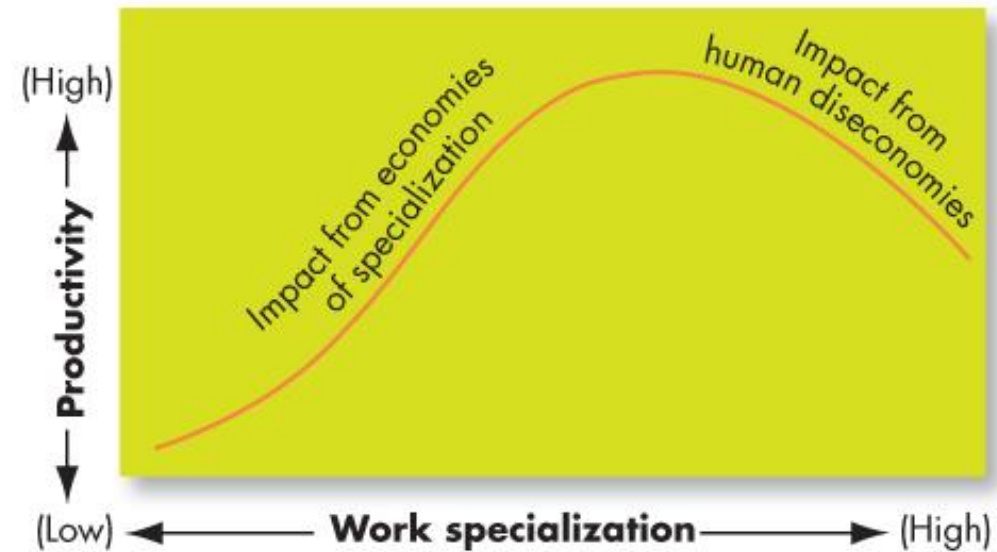
Work Specialization

Describes the degree to which activities in the organization are subdivided into separate jobs
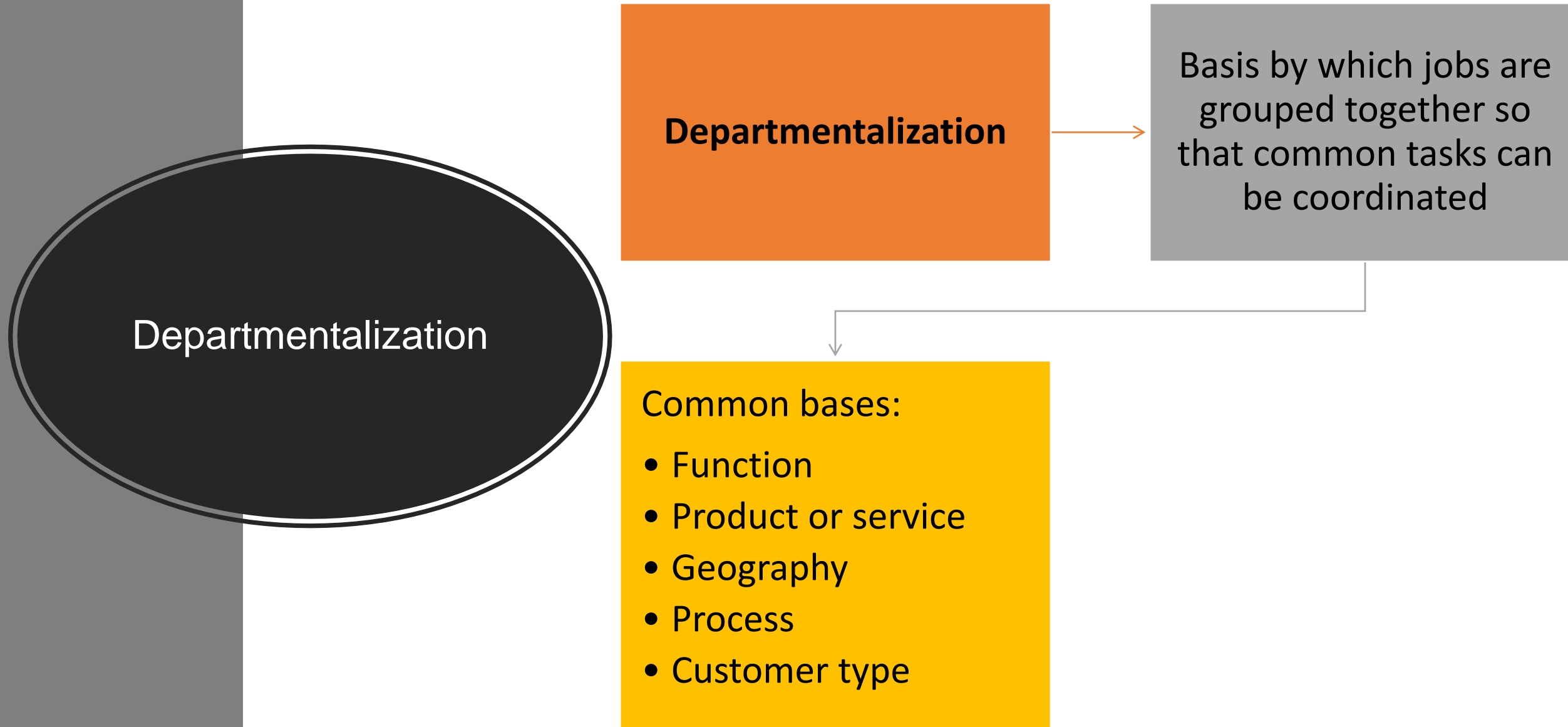
Also known as *division of labour*
- Benefits
  - Greater efficiency and lower costs
- Costs
  - Human costs when carried too far
  - Job enlargement as a solution

Work Specialization Economies

EXHIBIT 15-2 Economies and Diseconomies of Work Specialization

Departmentalization

Basis by which jobs are grouped together so that common tasks can be coordinated

Departmentalization

Common bases:

- Function
- Product or service
- Geography
- Process
- Customer type

Chain of Command

- **Chain of command:**

  Unbroken line of authority that extends from the top to bottom of the organization and clarifies who reports to whom
  - **Authority:** positional rights
  - **Unity of command:** one boss

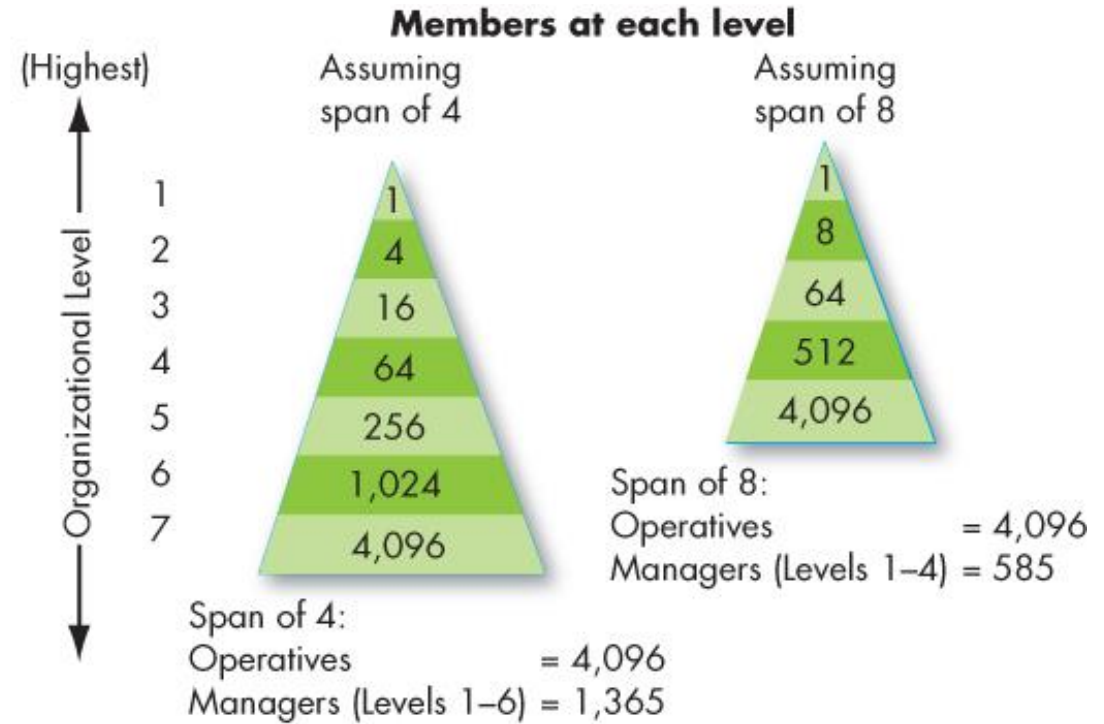- Fewer organizations find this is relevant

Span of Control

The number of employees a manager is expected to effectively and efficiently direct

Determines the number of levels and managers an organization has:

- Trend is toward wider spans of control
- Wider span depends on knowledgeable employees
- Affects speed of communication and decision making

Contrasting Spans of Control

EXHIBIT 15-3 Contrasting Spans of Control

Members at each level

(Highest)

Organizational Level

Assuming span of 4

Level	
1	1
2	4
3	16
4	64
5	256
6	1,024
7	4,096

Span of 4:
Operatives = 4,096
Managers (Levels 1–6) = 1,365

Assuming span of 8

1
8
64
512
4,096

Span of 8:
Operatives = 4,096
Managers (Levels 1–4) = 585

Centralization and Decentralization

- **Centralization:**

  Degree to which decision making is concentrated at a single point in the organization
  - Only includes formal authority: positional rights
  - Highly centralized when top managers make all the decisions
  - Decentralized when front-line employees and supervisors make decisions
  - Trend is toward increased decentralization

Pearson
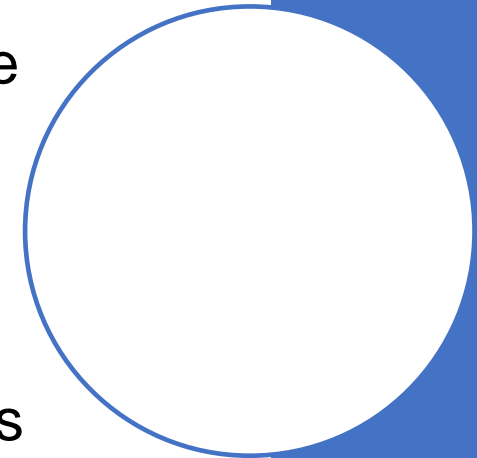
Formalization

Degree to which jobs within the organization are standardized

- *Formal*: minimum discretion over what is to be done, when it is done, and how

- *Informal*: freedom to act is necessary

Common Organizational Designs

- Three common organizational designs:
  1. Simple structure
  2. Bureaucracy
  3. Matrix structure

Simple Structure

- Low degree of departmentalization
- Wide spans of control
- Authority centralized in a single person
- Little formalization
- Difficult to maintain in anything other than small organizations

Bureaucracy

Highly routine operating tasks achieved through specialization

- Formal rules and regulations
- Centralized authority
- Narrow spans of control
- Tasks grouped by functional departments
- Decision making follows the chain of command

Matrix Structure

- Combines two forms of departmentalization
  - Functional
  - Product
- Dual chain of command
- Advantages:
  - Facilitates coordination and efficient allocation of specialists
- Disadvantages:
  - Possible confusion, fosters power struggles, stress

Matrix Structure for a University Department of Business Administration

Programs Academic Departments	Undergraduate	Master's	PhD	Research	Executive Development	Community Service
Accounting						
Finance						
Decision and Information Systems						
Management						
Marketing						

EXHIBIT 15-4 Matrix Structure for a University Department of Business Administration

New Design Options

- **Virtual Organization:**

  A small core organization that outsources its major business functions

  - Highly centralized with little or no departmentalization

  - Provides maximum flexibility while concentrating on what the organization does best

  - Reduced control over key parts of the business

A Virtual Organization

EXHIBIT 15-5 A Virtual Organization

The Boundaryless Organization

Boundaryless organization:

- Eliminates the chain of command
- Has limitless spans of control
- Replaces departments with empowered teams
- Breaks down geographical barriers

The Leaner Organization: Downsizing

- **Downsizing:**

  A systematic effort to make an organization leaner by selling off business units, closing locations, or reducing staff
  - Controversial because of the negative impact on employees
  - Impact on organizational performance has been very controversial
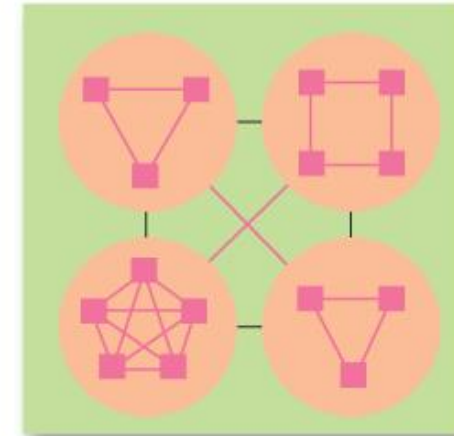
Mechanistic Versus Organic Models

EXHIBIT 15-6 Mechanistic Versus Organic Models

The Mechanistic Model
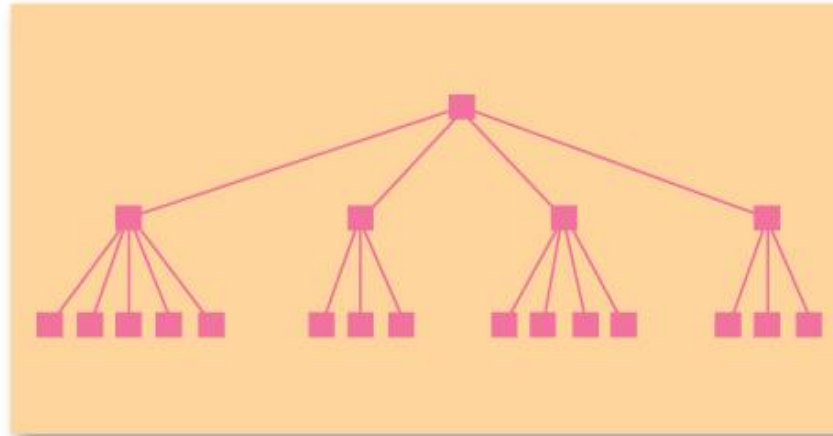
- High specialization
- Rigid departmentalization
- Clear chain of command
- Narrow spans of control
- Centralization
- High formalization

The Organic Model

- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization

Determinants of Structure (1 of 2)

- **Organizational Strategy**
  - ***Innovation strategy***: introduce new offerings – prefer organic structures
  - ***Cost-minimization strategy***: cost control – prefer mechanistic structures
  - ***Imitation strategy***: minimal risk and maximum profit – both structures used

Determinants of Structure (2 of 2)

- *Organization Size*
  - Move toward mechanistic structure as size increases
- *Technology*
  - Routine activities prefer mechanistic structures, non-routine prefer organic structures
- *Environment*
  - Dynamic environments lead to organic structures

Organizational Designs and Employee Behaviour

- Cannot generalize any link between structure and performance
  - Too much individual variance
- Consider employee preferences for:
  - Work specialization
  - Span of control
  - Centralization
- National culture influences organizational structure
  - High power distance cultures accept mechanistic structures

Implications for Managers (1 of 2)

- Excessive specialization can create dissatisfaction and reduced motivation
- Avoid designing rigid hierarchies that overly limit employees' empowerment and autonomy
- Balance the advantages of virtual and boundaryless organizations against the potential pitfalls before adding flexible workplace options

Implications for Managers (2 of 2)

- Downsize your organization to realize major cost savings, and focus the company around core competencies – but only if necessary because downsizing can have a significant negative impact on employee affect

- Consider the scarcity, dynamism, and complexity of the environment, and balance the organic and mechanistic elements when designing an organizational structure

Keep in Mind…

- As tasks become more complex and required skills more diverse, the greater the use of cross-functional teams
- Simple structures are easy to create but difficult to grow
- External boundaries can be reduced through globalization, strategic alliances, customer-organizational links, and telecommuting

Pearson

Identified the six elements of an organization's structure.

Identified the characteristics of the three most common organizational designs.

Described the characteristics of the virtual organization, the boundaryless organization, and leaner organizations.

Demonstrated how organizational structures differ, and contrasted mechanistic and organic structural models.

Analyzed the behavioural implications of different organizational designs.

Summary

Mini Case: Structured for Service

Discussion Questions

1. What organizational structure–related problems do you anticipate emerging as Revitalisation continues to expand and grow?

2. Should they change their organizational structure in response to growth? If so, how? What will the likely impact on their mandate and mission be?

3. Do for-profit companies experience similar "growing pains"? How might their issues differ from those of not-for-profit and charitable organizations? How might they be the same?

Mini Case: Structuring for Multiple Purposes— Finding the Right Balance

Discussion Questions

1. What type of organizational structure would you recommend for Jamal? Why?

2. What are the risks of your proposed structure? How might you counter those risks?